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NATIONAL AFFAIRS, POLICY

State Council Officials Outline Key 1992 Reforms

92CE0467A Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese No 4,
20 Apr 92 pp 1-2

[Article: "Key Aspects of Price Reform and Other Reforms This Year, Outlined by Department Officials Under the State Council"]

[Text] State Price Bureau Director Luo Zhiling said: The recent changes and new circumstances of the economy have created many advantageous conditions for price work in 1992. It is possible to undertake important steps in price reform. There is also a historical opportunity to raise the standards, and expand the scope of price work. At the same time, it is necessary to take note of the factors that cause inflation and hamper the rational adjustment of prices. It is still necessary to be steady and cautious in controlling the intensity of price adjustment. It remains an arduous and complex task to stabilize market prices and continue price reform.

In accordance with the guiding principle for economic work of the central work conference and spirit of the Eighth Plenum of the 13th CPC Central Committee, and consideration of the current state of prices and of the actual situation on price work, the guiding principle for price work in 1992 will still be "both to stabilize prices and to reinvigorate the economy." While there will be no relaxation of control over prices, efforts will be made to achieve new progress in terms of reinvigorating the economy. Continuing price reform will center on improving large- and mid-sized state enterprises and developing the rural economy. Consequently, the objectives of price work in 1992 are: To consolidate and develop results of the improvement and rectification work, continue to maintain the basic stability of prices, proceed with price reform in an active and safe manner, enhance and improve price adjustment and control, so as to make greater contributions to the improvement of large- and mid-sized state enterprises, to the development of the rural economy, and to the sustained, steady, and coordinated development of the national economy.

In accordance with those objectives, the following several principles should be observed in 1992 price work:

1. Correctly handle the relations among reform, stability and development; under the precondition of basic price stability, examine the situation and seize appropriate opportunities to proceed further with price reform.
2. With the party and government determined central task as the focus, develop the role of price as a lever, promote structural adjustment, raise efficiency, improve large- and mid-sized state enterprises, and develop the rural economy.
3. In price reform, it is necessary to organically combine "adjustment," "decontrol," and "control" to improve

and perfect the methods of price management, and to establish and fully develop the system of indirect price regulation and control.

4. Price adjustment and decontrol must proceed under the leadership of competent authorities and in an orderly, active and safe manner. We must guard against the tendency to disregard the issue of price stabilization and to seek quick fixes in reforms.

5. Continue the practice of managing both the work on price and self-improvement at the same time, and enhance guidance for price work at the grassroots. Energetically promote the work style of being eager to explore and advance, of proceeding on the basis of reality and of doing real work, and enhance the combat effectiveness of the price system.

The official in charge of the State Structural Reform Commission said: The key of this year's economic structural reform is to improve large- and mid-sized public-owned enterprises by effectively implementing the "Enterprise Act," transforming the enterprises' operating mechanisms, and gradually push enterprises towards the marketplace. With this as the focus, we will actively proceed with a set of coordinated reforms. That is, to proceed with price reform in an active and safe manner, and increase the intensity of the circulation system reform; to use a set of economic levers in a coordinated way so as to enhance indirect regulation and control; to undertake large steps in reforms relating to housing, social security, and medical service; to manage well the key reform trial points, and make bold explorations to contribute to the establishment of new systems and mechanisms; to effectively implement the CPC Central Committee's "Decision on Further Strengthening of Agriculture and Further Enhancement of Rural Work," and continue rural reforms. In regard to price reform, we will continue to proceed with price reform in an active and safe manner this year. In accordance with the need to stabilize prices and reinvigorate the economy, it is necessary to focus on adjusting the irrational prices of some products under the precondition of keeping the basic stability of the general price level. We will reform the mechanism of price formation, by gradually decontrolling prices for commodities enjoying a basic balance between supply and demand, and develop the role of market regulation. We will revise and publish, as quickly as possible, a catalogue of prices under specialized administration, adjust the relevant authority of those who perform specialized price administration, and conduct studies on and formulate methods of administration of decontrolled prices.

Commerce Minister Hu Ping believes: The urgent matter in the reform of the commerce system is to adopt various measures, and establish a unified national market. This year's work on the upward adjustment of grain purchase price will involve the enlargement of price differentials. The Commerce Ministry will open a national grain and

oil exchange in Pudong, Shanghai, and will also open wholesale markets for means of agricultural production and industrial products.

Agriculture Minister Liu Zhongyi said: To further invigorate the rural economy, it is necessary to continue reform of the pricing and circulation system for agricultural products.

Labor Minister Ruan Congwu said: This year we will appropriately accelerate reform of the labor and wage system and social security system, and advance the trial points of all-personnel job contract system.

Construction Minister Hou Jian said: This year and next the focus will be on solving housing difficulties and rebuilding of unsafe and old dwellings. It is necessary to change the long-used approach of scattered construction, promote comprehensive real estate development, and rebuild old urban areas and build new urban areas by blocks and sections. With regard to the issue of the reform of the housing system, this year will see substantial advances in raising rents, housing sales, housing construction based on gathered funds, establishment of housing funds, setting up a system of housing funds, and development of the real estate market.

With regard to foreign trade system reform, an official in charge of the department concerned said: This year we will improve the management methods for licenses and quotas, and gradually introduce the mechanism of competitive bidding based on different products, and perfect the system of export tax refund to truly realize timely tax refund based on actual volume of export. With regard to the import system, we will gradually establish a mechanism that uses industrial policy to guide imports, and uses tariffs as the main means of regulating imports. We will expand the scope of import-agent price setting. In addition, this year we will also expand the foreign-exchange trading market, and continue to fine tune exchange rates to create conditions for the establishment of regulated floating rates.

The state's attitude towards the stock-system trial points is: To pay attention to formulating policies and measures, and provide guidance for different categories of trial points. The concrete plan is to actively develop the stock system based on legal-person shareholding to adjust enterprises' organizational structure. Mutual shareholding will be allowed when public-owned enterprises carry out horizontal ties and organize groups. When new enterprises are established on the basis of joint funding of the central and the locality, among localities, and of the government and enterprises, those with the necessary conditions should be made limited liability corporations based on legal-person shareholding. Public-owned enterprises with the necessary conditions may let nonpublic-owned enterprises hold their

shares, thereby turning into jointly funded limited liability corporations. In accordance with the regulations of the state, and with approval based on examination, enterprises may raise funds by issuing bonds and stocks, and by introducing foreign investment. Shanghai and Shenzhen Cities will increase the number of listed enterprises in a planned, gradual way.

State Tax Bureau Director Jin Xin said: We must continue reform of the tax system. This year we will formulate implementation plans based on the general plan of tax system reform, and focus on the reform of income tax. The current enterprise income tax has three categories: state enterprise income tax, collective enterprise income tax, and private enterprise income tax. The categories are established on the basis of the respective economic natures of different enterprises. The use of categories has played an important role in organizing revenues and regulation and control over the economy, the categories also have obvious defects and deficiencies. First, the establishment of categories on the basis of enterprises' economic natures has led to the use of too many income tax categories. Meanwhile, disputes with relevant authorities have occurred when determining the economic natures of tax payers, and increased conflicts in the process of enforcing the tax law and other economic laws and regulations. Second, tax rates are not unified. The tax rate is 55 percent for large- and mid-sized state enterprises, and 35 percent for private enterprises. Small state enterprises and collective enterprises are covered by the system of eight-grade progressive taxation with a determined amount of exemption, and the highest tax rate is 55 percent. Enterprises also enjoy different treatments in terms of pre-tax outlays, pre-tax debt repayment, and preferential tax policies. Inequity in tax burdens leads enterprises to compete with each other, and is not conducive to creating a situation of equitable tax burdens and equal competition. Third, there are too many tax-deductible items, which shrinks the tax base. The official income tax rate is high, the actual tax paid is low, and the gap between the two is too large. Fourth, the income tax system of state enterprises co-exists with the contract system which has many forms. The distribution relationships between the state and enterprises are far from being standardized. Therefore, taxes levied on domestic enterprises must be simplified and unified.

Open Policies Adopted in 29 Localities

HK2805111992 Hong Kong CHING CHI JIH PAO in Chinese 22 May 92 p 7

[By Wang Jian (3769 0494): "Table of Open Policies Adopted by 30 (number as published) Provinces, Municipalities, and Regions Throughout the Country"]

[Text]

Name of Place:	Beijing Municipality
Measures:	1. All state-owned large and medium enterprises in Beijing should fulfill the goal of transforming internal operational mechanism within the first half of this year. 2. Build up Haidian Information and Industrial Zone and Yizhuang Industrial Zone.
Comments:	Focusing its efforts on state-run enterprises as well as new- and high-technology industries, Beijing seeks a stable development in opening up.
Name of Place:	Tianjin Municipality
Measures:	1. Transform the internal operational mechanism of enterprises. 2. Give play to the role of bonded zones, economic and technological development zones, and new- and high-technology parks and zones, and introduce foreign investment.
Comments:	Enjoying a good foundation and light burdens, Tianjin has achieved initial results in opening up.
Name of Place:	Hebei Province
Measures:	Eleven measures have been worked out to graft state-run enterprises with foreign-funded ones, to strengthen its economic relations and trade, and to build up a new- and high-technology development zone and large-area development projects in Shijiazhuang.
Comments:	The government is still making strong interference in enterprises' affairs.
Name of Place:	Shanxi Province
Measures:	Expand Taiyuan Airport, improve telecommunications facilities, and simplify examination and approval procedures in order to attract more foreign investment.
Comments:	With its unchanged role as an energy base, the province is still under the tight control of the central authorities. Therefore, the province finds it rather hard to open itself to the outside world.
Name of Place:	Inner Mongolia Autonomous Region
Measures:	Hulun Buir Meng and Wuhai City will be assigned as experimental zones for economic reform, while Manzhouli will become an inland open city. Trade with CIS and eastern European countries will be promoted.
Comments:	Starting from a backward foundation, the region enjoys some distinct features for further development.
Name of Place:	Liaoning Province
Measures:	The State Council has approved to open up eight cities and 10 counties on the Liaodong Peninsula, and expand the area of Yingkou and Dalian Development Zones. Shenyang and Dandong Cities will establish their own development zones. State-run enterprises will seek further development by grafting themselves with foreign-funded enterprises.
Comments:	The province has huge potential to expedite opening up. However, the huge loss incurred by state-run enterprises is still a major problem currently plaguing the province.
Name of Place:	Jilin Province
Measures:	Use the open city of Yunchun to promote Russia- and Korea-related trade, and to bring along the opening up of the entire province.
Comments:	A new prospect of opening up has not yet taken shape.
Name of Place:	Heilongjiang Province
Measures:	Major efforts will be devoted to promoting economic relations and trade with CIS. Suifenhe and Heihe Cities will be assigned as open cities, with a view to step up border trade.
Comments:	It is Heilongjiang's special feature to use border trade to bring along domestic trade and opening up. The province enjoys good prospects for future development.
Name of Place:	Shanghai Municipality
Measures:	Pudong Special Zone has entered a phase of substantial development in five fields, including basic facilities, land development, finance, industry, and real estate industry. More autonomy has been granted and policies simplified in order to attract more foreign investment.
Comments:	Shanghai has put its focus on Pudong. However, although Pudong enjoys a great many preferential policies, people there fail to "make full use of these policies" as the people of Guangdong have done. The atmosphere of opening up in Shanghai is sufficiently strong, yet no breakthrough has been made so far.
Name of Place:	Zhejiang Province
Measures:	Zhejiang will put its focus on the development of 37 open cities and counties, including Ningbo; graft a number of outdated enterprises onto foreign-funded enterprises; develop large areas of land through construction projects along Hangzhou-Yongquan Highway; and grant preferential policies to Beilungang Industrial Zone.
Comments:	Being one of the most economically advanced areas in the Chinese market, Zhejiang can carry out opening up with high proficiency.

Name of Place:	Shanghai Municipality
Name of Place:	Anhui Province
Measures:	Grasp firmly the construction of port facilities, work out and perfect policies guiding Wuhu City to open itself to foreign steamers, try to obtain approval to open Huangshan Airport to foreigners, grant preferential policies in the fields of large-area land development and lease, and allow foreign-funded enterprises to export commodities under three categories.
Comments:	Located in the inland area of China and with a backward foundation, the province still lacks appeal to the outside world.
Name of Place:	Fujian Province
Measures:	Expand economic, trade, labor service, scientific and technological, and cultural cooperation between Fujian and Taiwan, step up the implementation of policies guiding Xiamen to become a free port, and give greater autonomy in the fields of entry and exit of personnel, goods, and foreign exchange, as well as currency exchange.
Comments:	Fujian-Taiwan trade is the barometer of economic contacts between the Chinese mainland and Taiwan. Fujian enjoys exceptional advantages in attracting Taiwan investment, and this favorable trend is irresistible.
Name of Place:	Jiangxi Province
Measures:	Work up and practice preferential policies in Nanchang-Jiujiang Industrial Corridor, establish a development zone in Ganzhou, and open Jiujiang Port to foreign steamers.
Comments:	The province has a poor economic foundation, yet it is rich in natural resources. The province lacks not only flexible policies but also a satisfactory local human environment.
Name of Place:	Shandong Province
Measures:	The province has decided to transfer to prefectures and cities all its autonomy previously granted by the central authorities, allow people to use foreign investment to develop commerce, the tertiary industries, telecommunications, and real estate, assign land in Weihai and Yantai for South Korean and Taiwan investment respectively, and send over 10,000 people to study in foreign countries within the coming five years.
Comments:	Shandong's opening up is known for its steadiness and good results. Ranking among China's leading provinces in economic growth, the province enjoys good basic facilities and great potential.
Name of Place:	Henan Province
Measures:	Build up new- and high-technology development zones in Zhengzhou and Luoyang, and use tourism to bring along economic and trade development. Efforts will be made to perfect China's first grain futures market (Zhengzhou).
Comments:	Henan chooses circulation and tourism as its orientation for further development, thus developing its strong points and avoiding its weaknesses.
Name of Place:	Hubei Province
Measures:	Simplify the examination and approval procedures on the establishment of foreign-funded enterprises, give more autonomy to lower levels regarding the examination and approval on the establishment of foreign-funded enterprises, and transfer the right of 65 pieces of land assigned in the Chang Jiang Economic Development Zone. The construction of Wuhan International Airport, railways, and highways will be expedited.
Comments:	Hubei benefits the most from the Three Gorges Project. If the province can successfully carry out opening up on this basis, the conditions for economic development will be improved considerably.
Name of Place:	Hunan Province
Measures:	Open up Yuyang in northern Hunan and Chenzhou in southern Hunan, follow the examples of Shanghai and Guangdong, build up a new- and high-technology development zone which "links together five prefectures and one corridor," and work out preferential policies to attract foreign investment.
Comments:	Hunan puts a lot of effort into public relations work. It is a pity, however, that the province has a relatively weak economic foundation.
Name of Place:	Guangdong Province
Measures:	1. Expand the areas of open zones, with focus placed on Daya Bay in Huizhou, Hengqin Island in western Zhuhai, and Guangzhou Nansha. 2. Enhance the level of opening up; and build up multifunctional high-tech industries in Shenzhen, Zhuhai, and Shantou. 3. Vigorously expand foreign economic relations and trade, and improve the building of basic facilities.
Comments:	Guangdong enjoys good timing, favorable topographical advantages, and support of the people in its efforts to carry out opening up. If the province can make full use of the preferential policies granted by the central authorities, Guangdong will have an opening up situation incomparable with other provinces and municipalities.
Name of Place:	Guangxi Zhuang Nationality Autonomous Region

Name of Place:	Hunan Province
Measures:	Focus has been placed on basic constructions such as energy and transportation. With an aim to step up its border trade with Vietnam, the province has invested 250 million yuan to upgrade electricity, highways, and telecommunications facilities in Pinxiang and Dongxing Towns.
Comments:	Skirting the sea on one side, the river on another side, and foreign land on the third side, Guangxi should not find it difficult to open itself to the outside world. What is difficult for the province is that it should develop something which really has an appeal to foreign investors.
Name of Place:	Hainan Province
Measures:	Hainan has put its focus of opening up on Yangpu Project, practiced an isolation-type management, allowed foreign businessmen to develop large areas of land through construction projects, vigorously introduced foreign investment in an all-positioned way, and worked out and implemented policies which are more favorable to foreign investment.
Comments:	Hainan is the boldest province in carrying out opening up, however, it can no longer cause a sensation throughout the country, as it did in former days. If it fails to work out and put into effect certain substantial measures, Hainan Special Economic Zone will have nothing special.
Name of Place:	Sichuan Province
Measures:	Give play to its superiorities in natural resources and technology with a view to attract foreign investment. Efforts will be made to increase exports in cooperation with coastal and border provinces and cities; expand economic and trade contacts with Southeastern Asian countries and CIS countries, and build up development zones in Chongqing and Chengdu.
Comments:	Sichuan is known as the land of abundance. Located in a sealed corner in southwestern China, Sichuan finds it hard to open itself to the outside world. However, the province is rich in natural resources and enjoys huge potential for further development.
Name of Place:	Guizhou Province
Measures:	Efforts will be made to build up Guiyang Airport and Guiyang-Zunyi high-grade highway, promote telecommunications facilities, and strive to enable Guiyang High-Tech Development Zone to enjoy preferential policies specially designed for coastal areas.
Comments:	Guizhou has a backward economy and culture, and it will take some time for Guizhou to open itself to the outside world.
Name of Place:	Yunnan Province
Measures:	Make use of its geographic superiorities to develop its border trade and tourism, and work out preferential policies to attract foreign investment.
Comments:	To successfully carry out opening up, Yunnan should first make a success in rectifying its social order.
Name of Place:	Tibet Autonomous Region
Measures:	Extend the scope of investment, work out preferential policies for foreign investment, and welcome foreign businessmen to set up representative offices in Tibet.
Comments:	With a backward economy and culture, the region can attract foreign investment and achieve results in opening up only when a sound social environment is built up.
Name of Place:	Shaanxi Province
Measures:	Work out a number of policies guiding the introduction of foreign investment, set up a high-tech development zone in Xian, and use the development of tourism to bring along foreign economic relations and trade.
Comments:	(See comments on Tibet)
Name of Place:	Gansu Province
Measures:	Make use of rich nonferrous metal resources and existing petrochemical industry to set up five development zones including Lanzhou, Jinchang, Baiyin, Xicheng, and Lianhai, and to attract foreign investment.
Comments:	(See comments on Tibet)
Name of Place:	Qinghai Province
Measures:	Welcome foreign businessmen to invest in Qinghai.
Comments:	(See comments on Tibet)
Name of Place:	Ningxia Hui Nationality Autonomous Region
Measures:	Work out more favorable policies in order to attract the investment of Islamic countries.
Comments:	(See comments on Tibet)
Name of Place:	Xinjiang Uygur Autonomous Region
Measures:	Strengthen its trade with CIS countries and build up a development zone in Yining [Gulja].
Comments:	(See comments on Tibet)

Nature, Transformation of Markets

HK1606061492 Beijing JINGJI YANJIU in Chinese
No 2, 20 Feb 92 pp 16-22

[Article by Wen Qian (5113 3383), edited by Zhen Xiaohong (6124 1420 3163): "On Nature and Transformation of Chinese Markets—A Theoretical Study of the Problem of Co-existence of Market Weakness and High Prices"]

[Text]

I. Crux of the Current Market Problem

In the second half of the 1980's, market prices rose every year. This attracted people's concern and worry. Over and above this state of affairs, in 1988 the retail sales commodity price index rose by 18.5 percent, and immediately caused society's extreme concern. The central authorities promptly adopted measures of adjustment and control, and departments of finance, currency, and planning put into execution a series of tightening and retrenchment measures. The measures included encouragement of value-conservation savings, raising the interest rate, controlling group purchasing power, tightening and compressing the scale of loans and capital construction, and so forth. After a seven to eight month stagnant period, the various measures taken gradually produced effects. By summer of 1989, the rate of the rise of retail sales commodity prices had been kept under control to a definite degree, but at the same time, nearly all the various kinds of consumer goods were extremely stagnant in sales. This was a problem causing great concern among the people, and for the time being there was no way of solving the problem of market weakness.

Up to the present, market weakness has continued for over two and half years and may be divided into three stages: (1) From April to October 1989: The special features of this stage were that despite the daily shrinking of the market volume, market prices basically did not go down. (2) From November 1989 to September 1990: The main special features of this stage were that following the fall of a portion of commodity prices, the number of enterprises stopping or cutting back production increased daily. The direct cause of this situation was that production consumption was too high. In 1989, the comparative production cost of products rose by 22 percent over the preceding year whereas the scale of the rise in the prices of means of production was less than 19 percent, even when estimated high. Under control of high consumption, if only prices fell, enterprises would incur losses and would come to a state of stopping or cutting back operation. (3) A year's time from October 1990 to the present: Market weakness caused by the enforcement of various tightening measures reached a climax in the second stage. In view of the fact that the serious stagnant sales of commodities would lead to production going downhill, early toward the end of the first stage, banks had already begun to increase loans and inject circulating funds into industrial enterprises. In the second stage, under the pre-condition of firmly controlling gross amounts, they appropriately loosened the

degree of tightness, first injecting loan funds into the circulating sector and closely followed up with increasing fixed assets investments. The results were, on the one hand, effectively pushing the rise in industrial production, and on the other, expanding social demand. Market volume was made to increase from slow to normal growth. In the fourth quarter of 1990, the total volume of retail sales of commodities in society increased by 9.4 percent (after deducting the price increase factor, there was also a definite growth in the actual market volume). In 1991, the planned growth was around 12 percent. In the interval, the prices of certain commodities which for a time had fallen, also began to rise. Thus, the market turned from weakness in total volume to weakness of a structural nature. So-called weakness in structure refers to the dislocation between supply and demand structures. The cause was maladjustment or imbalance in the industrial structure which for a long time had been out of control. But in the preceding two stages, market weakness was principally manifested in weakness in total volume, and weakness in structure was in hiding and not fully manifested. Now weakness in total volume has vanished and weakness in structure has become the market's outstanding special feature in the third stage.

In short, market weakness was transformed from weakness in total volume to weakness in structure, and the current weakness in structure continues. This is one phase of the problem. The other phase is that the general level of prices has been steadily rising from beginning to end, which was also the situation in the second stage when prices of certain commodities fell somewhat. The cause of the continual rise in the general level of prices was, simultaneously, that prices of commodities suffering from stagnant sales remaining unchanged or falling, prices of commodities enjoying brisk sales were all along rising, and also the former's falling rate could not from beginning to end offset the latter's rising rate. Since entry into the third stage, the state centrally readjusted the prices of certain important commodities and service projects, and this also was an important reason for the sustained rise in the general level of prices. Hence, despite the fact that the scale of the rise in the general level of prices has been clearly reduced, it is still rising (and not stabilized or unchanged, far less dropping). We may even say that the recovery or renewal of the rate of rise was an objective reality that cannot be denied. In 1990 retail market sales prices rose by 2 and 2.5 percent in the first to third quarters of 1991, while the forecast for the whole year was about 4 percent. This could not but warrant people's concern.

Summing up, the current basic special feature of the market is the coexistence at the same time of market weakness and prices at high levels. This is an extremely contradictory economic phenomenon. Why is such an imbalanced state manifested in the market? Seen from the deep-lying causes, it was due to the comparative rate of input exceeding output, and excessive labor consumption in the production of unit product. Historically,

China's market was under the control of high consumption, that is, high value. This is so even now, and is currently where the crux of the whole market problem lies.

II. Analysis of Underlying Causes of Market Imbalance

The market is structured by such major factors as market value, market price, supply and demand, market competition, and so forth. Of these, market value is the crucial factor. Hence, in order to understand the nature and special features of market and, further, to understand the basic causes for market's imbalance, the key lies in correctly grasping market value which still plays the role of control over the current market situation.

While there is only one kind of value, market value may be divided into high, intermediate, and low value. The various kinds of market value are the crystallization of society's necessary labor, but among them there is a marked difference in the content volume of society's necessary labor. This is because formation of market value is determined by commodity production conditions, which are objectively controlled by market absorption volume. In other words, market absorption volume affects the formation of market value, and thereby is an important cause leading to development of differences in volume of the different kinds of market value.

The conditions of commodity production may generally be divided into the following: (1) Intermediate conditions. These include technical, resource, and operation and management conditions, and are positioned in the intermediate level of the same industry and trade. Under intermediate production conditions, economic effect, referring to the social labor volume consumed per unit of product output, is at the average level in the production of the same category of products. (2) Inferior conditions. Conditions of resources, technology, and operation and management are at the backward level among the same industry and trade. Under inferior production conditions, the social labor volume consumed in per unit product output is to a large extent higher than the average level in the output of the same category of products. (3) Superior conditions. Conditions of resources, technology, operation and management are in a superior position among the same industry and trade. Under superior production conditions, the social labor volume consumed in per unit product output is to a large extent lower than the average level in the output of the same category of products. In enterprises belonging to the same kind of production conditions, where in reality different conditions exist, the economic effects are not the same, and though mentioned, this will not be discussed here.

Formation of market value is determined not only by the category of commodity production conditions but also by the concrete composition of the different kinds of production conditions. In the circumstances of the product being sold out in the market (commodities supplied to the market are precisely and completely

absorbed by the market without any left-over or insufficiency), there are three different kinds of composition of commodity production conditions. Corresponding to them, three different kinds of market value are generated:

(1) Under the major conditions of social production being formed by intermediate conditions, of the commodities absorbed by the market, the great proportion is produced under intermediate conditions while a small proportion is produced in inferior and superior conditions. This is the best kind of composition. The social economic effects are relatively high and labor resources can be utilized relatively fully. The market value formed on the basis of this composition is of an intermediate position.

(2) Under the major conditions of social production formed by inferior conditions, the great proportion of commodities absorbed by market are produced under inferior conditions and only a small portion is produced under superior and intermediate conditions. This is a sort of benign composition. Although labor resources are nearly wholly put into the production process, yet social economic effects are low, that is, utilization of existing labor resources has been irrational. The market value formed basically under this sort of composition is of a high position.

(3) Under the major conditions of social production formed by superior conditions, the great proportion of commodities are produced under superior conditions and only a small portion is produced under inferior and intermediate conditions. At first sight, this seems to be an ideal composition. In reality, it is not so. It is also a sort of benign composition. Despite that, its economic effects are the highest, yet because of insufficient demand and a considerable portion of labor and resources not being put into use, serious difficulties are hidden and stored. Market value formed by this sort of composition is of a low position. At all times, improvement of commodity production conditions can only be gradual and limited to a definite extent. Even though various kinds of production conditions have been improved, the state of their composition cannot at once evolve a basic change. However, market absorption volume (Footnote 1: Market absorption volume is the unification of supply volume and demand volume, and its formation, regardless of the market form or stature, is the result of the mutual effect and restriction of supply and demand) is easily changeable. Its changes (usually caused by changes in demand) play an extremely important role affecting the composition proportion of the various production conditions as well as the formation of market value. As a rule, the manifestation is: Following an increase in market absorption volume, commodities absorbed by market will consist more of those of relatively lower levels of production conditions, whereas in the case of reduction in market absorption volume, commodities absorbed by the market will all the more be concretely assured by those of relatively higher

levels of production conditions. This is more so when violent changes occur in the market absorption volume.

In the first section of this article, we mentioned that China's markets were under the control of high value. As for the cause, we only pointed out the too-high consumption in production. Based on the analysis made in this section, we can see that the controlling position over the market of high value is determined by the composition of the various conditions formed by inferior conditions as the main body which for many years have not notably improved. At the same time, the fact that inferior conditions have been the main body of the structure of social production conditions, is, under the conditions of the protracted over-heating of the economy, indivisible from excessive expansion in market absorption volume. Originally, the utilization rate of the essential elements of production by the various departments has been on a low level, and consumption in production has universally tended to be on the high side. In the latter half of the 1980's, due to over-brisk social demand, enterprises of inferior conditions, one batch after another, edged into the production process. They not only pushed the organizational structure of industry to change in an irrational direction, but also naturally caused a large-scale increase in production consumption. Hence, excessive growth in market absorption volume over many years was built on the basis of high consumption while excessive growth in market absorption volume which disregarded the need for improvement in objective production conditions ultimately led to the protracted and stable rule over the market by commodities of high value.

The complex nature of the problem has far exceeded this. In the environment of an over-heated economy, market weakness has suddenly made its appearance. This indicated the occurrence of an important change in market absorption volume. This being the case, does it imply that currently the market is no longer under the control of commodities of high value and has changed to be restricted by commodities of intermediate and low value? This touches on changes in market type and should be made clear. Hence, it is necessary to examine the general special features of control over the market by high-position value and the effects caused by market weakness on this sort of market; and also to examine what concrete counter-measures can be adopted to extricate the market from the imbalanced state.

The main special features of a market under the control of high value are manifested in the following two aspects:

1. **Market price.** Market price is the general monetary manifestation form of market value. Prices equated to high value are high prices. Control of the market by high value is first of all manifested by high prices. The rule governing the operation of high prices is that deviation upward from value should keep within the limit of not leading to currency depreciation; deviation downward from value cannot reach the level of intermediate value. This is because it is related to the renewed composition of commodity production conditions, but under the

condition of inferior conditions occupying the leading position in the composition of various production conditions, conversion to intermediate prices corresponding to intermediate value is not possible.

In the course of structural reform, due to the difficulty of controlling social demand, high prices repeatedly deviate upward from value, to the extent of exceeding the top limit which they should have and ultimately leading to the occurrence of currency depreciation. For example, from 1984 to 1987 the rate of the upward rise of the general level of prices averaged over 7 percent annually and in the subsequent two years rose to a two-digit figure. In other words, not only did market prices become high prices in excess of intermediate prices, but also operation of the price mechanism had gone seriously out of order, being in the extraordinary state of only rising but not falling.

This being the case, in the period of market weakness, are high prices converted into intermediate prices (not to say low prices), and has the price mechanism resumed normal operation? The situation is far from this. In the first stage of market weakness, entrepreneurs are very unwilling to lower prices to make their products marketable. The basic cause for this is the excessively high consumption in production and naturally there are causes of their not knowing or understanding the drastic changes in the market situation. In the second stage of market weakness, the prices of a portion of commodities have fallen, not due to reduction of consumption in production, but due to the pressure force of large stockpiling of products and the great increase in the holding-up of funds. Due to the fall in price not being sufficient, it is still difficult to expand social demand and market absorption volume. Moreover, on account of the falling of prices, deficits have risen, and some enterprises which cannot stand the losses are compelled to suspend production. In the two stages, operation of the price mechanism has two different conditions. However, though different, both of them explain the same problem, that in a withering market, high value still exerts control and in such a situation high prices cannot be converted into intermediate prices. This is also true in the third stage of market weakness which the writer will touch upon presently.

True, the generation and continuance of market weakness provides an important opportunity for controlling the general level of prices and thereby improving the operation of the price mechanism. In fact, in the past two years not only was the scale of the rise in the price general level clearly reduced but also the abnormal state of the operation of the price mechanism was changed to a certain extent. However, at the same time we cannot but see that in the several stages of market weakness, the general level of prices was still slowly rising. The fact that for several years in succession the general level of prices has remained high without falling (temporarily without referring to its rising rate) as a whole denotes that high prices could not be transformed into intermediate prices

and that the problem of the deformed operation of the price mechanism was still far from being basically solved.

2. Supply and demand. Basically speaking they are both under the restriction of market value. Let us look at supply first. On the one hand, it is determined by the input volume of social labor, and on the other hand, it is also determined by the labor volume consumed in per unit production. Hence, in the production of certain commodities, when the total volume of labor input is fixed, the high or low market value will generally determine the total supply volume of these categories of commodities. Let us now look at demand. Demand is determined on the one hand by the manifestation of the monetary income of purchasing power, and on the other hand, by market prices, and market price is the monetary form of market value. When monetary income is fixed, the actual market value of certain commodities basically determines the total demand volume of these categories of commodities. Hence, if the form or pattern of market value is different, the nature of supply and demand is also naturally different. High value's control over the market not only is manifested in market price but also is reflected in supply and demand.

Supply under the control of high value is by nature supply in a short or lacking state, while demand under the control of high value is in nature demand of an excessive degree. The reasons for this, so far as the former is concerned, are formation of high value manifested in per unit production, labor consumption is excessive, and hence social total labor volume is obviously insufficient; whereas, in the case of the latter, because formation of high value usually accompanies the rapid expansion of employment which leads to the excessive increase in monetary income, and, so far as supply which can be generated is concerned, demand always appears to be excessive. Naturally, the difference between supply and demand can possibly develop certain kinds of changes, but only if both are basically formed by high value, there will be no change in their respective innate special feature.

In the course of structural reform due to the severe restriction of high value on the increase of supply, and also to rapid growth in monetary income and its effectively pushing growth of demand, social demand always exceeds social supply and forms the basic stature of the market. In the latter period of the 1980's the discrepancy between social supply and demand further manifested a state of continuous expansion. The rise in successive years in the general level of prices appeared in the long-term excess of social demand over social supply and in an irreversible market environment. Therefore, not only the price mechanism and the supply and demand mechanism were both in a deformed state, but also the market's general situation was a considerably difficult one.

The problem is, in a period of market weakness is there any change in the nature of the relationship between

supply and demand? Or, it is said, stagnant sales in market commodities are sufficient to manifest that social demand is seriously insufficient while social supply shows an obvious surplus. This is a matter frequently discussed by people, but the situation is definitely not like this. Exercise of macroeconomic regulation and control at one time effectively check blind growth in social demand and forced a reduction in the extent of the rise in the general level of prices, but this could not prevent the continual rise in them. This was repeatedly mentioned in the foregoing. Now we need to further point out that the general level of prices and its changes constitute the objective standard for measuring whether or not social supply and demand are balanced. Based on this standard, since the appearance of a condition of weakness in the market, elevation of the general price level undoubtedly is still caused by social demand exceeding social supply. Generation of market weakness is due to the notable reduction in the discrepancy between the two, but social demand is still larger than social supply. It must be understood that at all times we must firmly insist on taking the general level of prices as the basis or sign to judge whether or not social supply and demand are balanced, otherwise we cannot correctly find out market's basic position.

Regulation of social demand should have a fixed limit. The limit is that sliding downhill of production would not be caused. It should be noted that even though social demand is under necessary regulation and control, it still may exceed the supply of commodities in appropriate quality, quantity, and variety, that is effective demand formed by appropriate commodities. This is determined by the maladjustment in the industrial structure. On the other hand, shortage or lack in socially effective supply necessarily causes the rise in prices of marketable products. Rise in the general price level is only the centralized reflection of the prices of various kinds of marketable commodities showing this condition or rising in varying degrees. It should also be added in supplement that herein precisely lies the cause of the continual rise in the general price level in the third stage of market weakness. The basic cause of weakness of a structural character is maladjustment in the industrial structure. Actual practice has shown that maladjustment in industrial structure is difficult to regulate and restrain. This is because the current industrial structure is formed on the basis of high value. Hence, not only markets of a withering total volume, but also those of structural weakness are alike placed under the control of high value.

It can be seen that in a period of market weakness, due to the exceptionally strong rule of high value, there cannot be, and cannot possibly be, any basic change in the character of the relationship between supply and demand. Naturally, because of the great reduction in the discrepancy between supply and demand, operation of the supply mechanism has been improved; yet its deformed state still exists and basically has not vanished.

III. Choice of Market Target Pattern

In order to display the role of market's role of regulation, it is necessary to thoroughly change the current market's innate structure and to proceed to transform the market's form and pattern to establish a general market balance. A so-called general market balance refers to the balance between social supply and demand and to the general price level becoming stable. But the problem here is: (1) How to select the market target pattern, and whether to transform high value to low or intermediate value; and (2) how to carry out macroeconomic regulation and control to realize the transformation of the market form or pattern.

Let us first examine the problem of a market target pattern. Formation of low value is related to superior conditions occupying the leading position in the various production conditions. However, superior conditions occupying the leading position is not due to the gradual up-grading of inferior and intermediate conditions. According to the law of progress in production technology, such a transformation in production conditions nearly cannot occur. Structuring of superior conditions into leading conditions in social production frequently requires that under conditions of the daily reduction in market absorption volume, one batch after another of producers under intermediate and inferior conditions are driven out of the production process in competition. In other words, the sustained withering of market absorption volume is the determining factor leading to the formation of low value. A market under the control of low value is also a sort of imbalanced market. It has no essential difference from a market under the control of high value. The difference between the two is in the form of the imbalance.

Let us next examine intermediate value. Formation of intermediate value is related to intermediate conditions occupying the position in the various production conditions. The composition of these conditions is also brought into being under the restriction of market absorption volume, but here market absorption volume does not grow rapidly or suddenly, nor does it wither on a large scale, but it grows appropriately. The so-called appropriate growth of market absorption volume refers to, on the one hand, whether it is suited to the improvement degree of existing conditions and is not beyond the capacity to bear on the part of production conditions; on the other hand, it can wholly absorb producers under the superior and intermediate conditions, can also absorb a portion of producers under inferior conditions, and only those producers who have seriously violated market regulations, as well as producers under the most inferior conditions are excluded from actual production process. Hence, a market under the control of intermediate value is different from a market under the control of high value and also different from a market under the control of low value and is advantageous to the realization of market's general balancing.

A market under the control of intermediate value possesses at least two obvious strong points.

(1) Market prices are intermediate prices. The law governing the operation of intermediate prices is that upward deviation from its value cannot touch the level of high value while its downward deviation should not touch the level of low value. This is also because the composition of objective productive conditions is prefixed. When in the composition of various production conditions intermediate conditions occupy the leading position, intermediate prices necessarily must accept the restriction of intermediate value. It can neither change into high prices suited to high value nor to low prices suited to low value, otherwise it is no longer the monetary form of intermediate value.

(2) Supply and demand are in a relatively balanced state. According to the nature of intermediate value, its formation is advantageous to economy in social labor (compared with high value). At the same time, it can contain a large number of producers in the production process (compared with low value). In the case of the former, it can push a suitable form of supply, and in the case of the latter, it can effect a suitable form of demand.

It should be clearly pointed out that supply and demand are in nature suited to each other, although it cannot be denied that between them there may possibly be a certain discrepancy. However, the discrepancy is limited, will not occasion a sustained increase, but may still be regulated. Let us take the case of supply: Certain insufficiency in current social labor can be promptly supplemented or replenished through reduction in labor consumption in the production of per-unit products. On the other hand, due to the majority of the labor population being under employment, there does not exist the pressure caused by serious unemployment on expanding supply. Under such conditions, the limited difference between supply and demand can be removed through suitably regulating the distribution of social labor and resources. As for demand, due to the relatively high speed in growth of the labor productivity rate, be it the increase in average wages or increase in the number of people employed, both are under the influence or restraint of the labor productivity rate. Under such conditions, the limited difference between supply and demand may be regulated through improvement in income distribution. Hence, not only is the deviation of intermediate prices from intermediate value limited, but also the upward deviation and downward deviation can in general offset each other. As a result, the general level of prices tends to stability.

In short, in respect of market prices and supply and demand, a market under the control of intermediate value is superior to the above-mentioned two other markets, and by reason should be the target pattern of a socialist market. This is also a major problem that should be settled in the process of the current deepening of structural reform.

IV. Transformation of Market Type and Macroeconomic Regulation and Control

How is it possible to transform the current market under the control of high value into a comparatively rational market under the control of intermediate value? Examined from the angle of macroeconomic regulation and control, it is necessary to proceed from two directions:

(1) Suitably regulate market absorption volume. Over-expansion of market absorption volume will lead to the sustained rule of high value over the market. This is something we do not wish to see. Nevertheless, reduction and withering of market absorption volume, when and as it reaches a definite degree, will naturally lead to the rule over the market by low value, and this similarly is not desirable. To set up a market under the control of intermediate value is fully possible only through frequently ensuring an appropriate increase in the market absorption volume.

In view of market absorption volume being the unification of supply and demand volumes, in macroeconomic decisionmaking it is necessary to appropriately control market demand and also correspondingly control social supply, this is the policy measure that should be adopted to ensure the appropriate growth of market absorption volume. Otherwise, if we disregard the control of any one side, the result will either be the excessive growth of the market absorption volume or forcing the market absorption volume to wither or be reduced on a large scale, thus endangering the economy's normal operation. This should be duly noted.

Seen from summing up the actual practices in recent years, there is an exceptionally difficult problem which needs to be clarified. Market absorption volume is the determining factor in restricting the transformation of market value. Since in past years, market absorption volume has passed through the stage of transforming from excessive growth to serious withering and the stage from serious withering to normal growth, then why is it that high value can from beginning to end maintain its rule and hold over the market? There are two causes for this. First, in the period of market weakness, control over social demand is repeatedly loosened. In the end, enterprises forced to stop or scale back production regain the marketability of their products in varying degrees and thereby maintain their own survival on the basis of the original high consumption. Second, closely following loosening of control over social supply the masses of commodity producers, including a considerable portion of commodity producers of inferior conditions, have obtained effective support and protection from the higher levels of departments in charge in such aspects as provision of funds and material resources. Thus, not only the irrational industrial organizational structure continues to exist, but also the departmental structure which for a prolonged period has been based on high consumption is extended, even to the point of deterioration.

Under the above-mentioned conditions, the various kinds of consumption in production cannot be reduced but in reality are increased. This is the basic reason, despite the several changes in market absorption volume, high value is not converted into low value, nor into intermediate value, but still maintains firmly its control over the market. Generally speaking, high value's current continued hold and rule over the market is closely related to inadequate macroeconomic regulation and control. In the earliest stage of market weakness, due to various measures being centralized in controlling social demand and to the excessive tightening force, market's actual absorption volume withered and was seriously reduced and also production slid downhill. At the time, there was lack of a supply readjustment structure to support effective measures for the suitable growth of supply. In the second stage of market weakness, in order to prevent the continued downhill slide of production, control over social demand was loosened too much. At the time, although attention was paid to providing a supply readjustment structure, yet a powerful and effective policy measure was still lacking and as a result, while production and market absorption volume rapidly recovered and increased, maladjustment in market supply and demand structure further worsened. It can be seen that simply regulating social demand and overlooking regulation of social supply can hardly accomplish the feat of seeking a suitable growth in market absorption volume and removing weakness in structure. It should be noted that at all times, market absorption volume is not at all simply determined by demand nor simply determined by supply. Rather, it is the final result of the mutual effect and mutual restriction of supply and demand.

(2) Rational readjustment of the industrial structure. An appropriate growth of market absorption volume is the pre-condition for the transformation of the market type. But transformation of market type, in the last analysis, can be realized through readjustment of the industrial structure. In the conversion of market's imbalance to total balance, the rational readjustment of the industrial structure must be relied on before there can be an objective realization. In this connection, industrial policy which occupies the central position among the various economic policies plays an important guiding role.

Industrial structure, including departmental structure and structure of production conditions. The former is the determining factor in restricting and controlling product structure and supply structure and also affects the formation of demand structure. The latter is the determining factor in restricting and controlling production's consumption level. If it is said that removing and overcoming weakness in market structure must rely on the enforcement of a policy on the industrial departmental structure, then in realizing the transformation of high value into intermediate value and proceeding to stabilize the general level of prices, it will be necessary to rely on implementation of the industrial technical and

organizational policies. Speaking of reality, at present the correct operation of the industrial organizational policy possesses first-rate important significance. This is because, first, the role of a department structural policy lies in fixing the order of industrial development. But any kind of industry is constituted by a large number of enterprises, and following a fixed order of industrial development to readjust the departmental structure in the end results in the transformation of the industrial structure. Rationalizing of the departmental structure is determined to a very large extent by rationalizing the structure of production conditions, particularly improvement of the organizational structure. Second, this refers to the proportionate composition of enterprises under different production conditions. Since production conditions include conditions in technology and resources and in operation and management, rationalizing the industrial technological structure is determined to a considerable extent by improvement in the industrial technological structure. Readjustment of the industrial organizational structure should concentrate on elevation of the economic effects which should be taken as the center and realized through the reorganization, combination, and amalgamation of enterprises. Formation of enterprise groups of a competitive nature is also an important form of readjustment of the industrial organizational structure. The urgent task now is determinedly to remove support in policy, funds, and resources given to commodity producers of inferior conditions, permit or force them, particularly those not in conformity with market regulations, to withdraw from the market and the production arena. Third, improvement of department and technological structures may be carried out in two forms, namely, readjustment of the incremental volume and readjustment of the existing volume, but the former consumes comparatively more funds and requires a longer period of time whereas the latter has the special features of requiring less investment and producing quicker effects. At present, the country is not financially strong enough to support or meet the demand of developing major industries while the enterprises are not financially strong enough to support and meet the demand of technical transformation. Therefore, we should all the more depend on readjusting the existing volume, that is, relying on improvement of the industrial organizational structure to solve the problem of the maladjustment of the industrial structure. In addition, reform of the price structure will help in readjusting the industrial departmental structure and overcoming market weakness of a structural character. But it should be noted that reform of the price system must be on the basis of the transformation of the type of market volume, otherwise it will cause a rise in the general level of prices, and the imbalance of the market will not be basically remedied. Hence, readjustment of the industrial organizational structure is the most basic measure that must be adopted in transforming the current market and realizing the market's total balance. Outside of this, there is no other road available for selection.

Article Examines Accelerating Development

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[Article by Ji Fangwen (0679 2433 2429) "On Accelerating the Pace of Development"]

[Text] The important talks made by Comrade Deng Xiaoping during his inspection tour of southern China has noticeably raised the issue of seizing the opportunity to accelerate the pace of development. Seizing the opportunity to accelerate the pace of development is a new economic thinking put forward by Comrade Deng Xiaoping, and it is also a major issue vital to the success of our country's reform and opening up and to the triumph of our socialist cause.

At a time when a new upsurge of reform and opening up is appearing in our country, raising the issue of accelerating the pace of development is tantamount to accepting the challenge and the strategic option to change the economic structure which hampers the development of productive forces, to liberate and develop productive forces, and to strengthen the material foundation of socialism. To a large socialist country like China which just began to develop, the pace of development is a question of vital importance. Accelerating the pace of economic development is, in essence, tantamount to deepening reform and opening wider to the outside world. We must not confuse the acceleration of development triggered by the liberation of productive forces as a result of reform with that of the past resulting from compulsory policies. The reform and opening to the outside world of the last decade and more has greatly weakened the foundation of achieving accelerated development through traditional means. The mechanism for economic growth is undergoing major changes. The power of market demand is growing stronger and stronger and is turning into a force which prevents the reliance on fiscal policy to accelerate the pace of development as in a centralized structure of planned economy, the new way of distributing the national income has made it impossible to accelerate the pace of development through forced revenue accumulation as we did in the past, and the variety and dispersion of investment has increased our choice of investment sources and our ability to exercise control. Thus, we do not have to worry too much about the danger that acceleration of the pace of development may trigger a "great leap forward," "Western leap forward," and what not. The report on the accelerated development in Tianjin's Daguzhuang published in this newspaper today has demonstrated this point. The serial reports on the accelerated development in Shanghai's Qizhong village which we previously carried also illustrated this point.

If we profoundly, not superficially; dialectically, not one-sidedly, study and understand Comrade Deng Xiaoping's talks made during his southern China tour, we would have no difficulty realizing that his brand new

economic thinking of seizing the opportunity to accelerate the pace of development contains extremely rich substance. First, Comrade Xiaoping scientifically summed up the patterns of economic development common to many developing countries since World War II and pointed out that in the development process, they all had a period or periods of accelerated development. Japan, South Korea, and a number of countries and regions in Southeast Asia are cases in point. He emphatically pointed out: Now that our neighboring countries and areas are holding a lead over us in economic development, if we fail to catch up with them or if we advance at a slow pace, the public may have grievances when they make a comparison. Besides, it is possible for our country to accelerate the pace of development today. If the international environment is favorable, and if we bring into play the superiority of our socialist system to pool our efforts on major projects, it is possible that several stages of accelerated economic development with better results will appear in the long process of modernization. Second, Comrade Xiaoping stressed conditions when he raised the issue of accelerating the pace of development. He said that we must not stop those localities which can develop from doing so, and that localities where conditions are ripe should be allowed to develop faster. He specifically cited as examples the relatively better developed regions such as Guangdong, Jiangsu, and Shanghai, saying these regions completely possess conditions for quicker development. Those mentioned here refer to such conditions as funds, technology, market, and qualified personnel which are requisites for economic development. Obviously this is completely different from the past practice of blindly and quickly embarking on projects regardless of whether or not we possessed the right conditions, nor is it the same as the speed resulting from subjective idealism of "if it can be done here, it can definitely be done there." Third, the ideology of accelerating development put forward by Comrade Xiaoping is to be realized in the process of strengthening reform and openness. It talks about quality, efficiency, and the development of an export oriented economy. We need not have to worry about it. He cited as an example the years from 1984 to 1988, a period of relatively faster economic development, saying the accelerated growth of these five years can be billed as a kind of leap. The growth has brought many changes to our country. This explains why the economy of a large developing country like ours should develop at a faster, rather than a slower and more steady, pace. We should pay attention to economic stability and coordinated development—which are relative and not absolute to each other. The only solid principle is to develop. We must be bolder in implementing measures in reform and opening up to the outside world. We must dare to experiment and must not walk like a woman with bound feet. Once we have selected our projects, we must be bold to experiment and venture. Fourth, the ideology put forward by Comrade Xiaoping of accelerating development stresses the reliance on science and technology and education, as well as the acceleration of development through science and technology. It is different from the

past practice of blindly enlarging the scale of capital constructions and involving in extensive operations.

In short, we have already amassed over 10 years of practical experience in reform and opening up to the outside world and in the acceleration of development. Our capability in macroeconomic regulation and control will definitely be enhanced and perfected continuously with deepened reform. Therefore, we need not have to worry that this will lead to a repetition of the mistakes of "The Great Leap."

How should we now specifically carry out Comrade Deng Xiaoping's thinking for accelerating China's economic development? What are the priority tasks on which we should concentrate?

First, we must accelerate the pace of reform and opening up to the outside world. This is the essence of the speeches made by Comrade Xiaoping during his inspection tour of the south. Revolution is carried out to emancipate the productive forces, reform is also carried out to emancipate the productive forces. To accelerate the development of the productive forces, we must first accelerate the pace of reform and opening up to the outside world. It is generally recognized now that China's economy developed most rapidly and the Chinese people received the most benefits in the past 10 years or so since the Third Plenary Session of the 11th CPC Central Committee, especially during the period from 1979 to 1988. During the past nine years, our country's GNP rose at an average of 9.5 percent a year, creating a miracle in the history of the world's economic development since the war, a miracle brought about by reform and opening up to the outside world. From 1979 to 1983, rural reform, marked by the contract responsibility system with remuneration linked to output, brought about a drastic readjustment of the production structure and labor structure in the rural areas, stimulating the rapid development of village and township enterprises and setting off the first round of accelerated economic growth in China in the early 1980's. After 1984, the focus of reform was shifted from the countryside to the urban areas, and the focus of opening up to the outside world expanded from the rural areas to the 14 open coastal cities. This greatly enhanced the production enthusiasm of urban workers and staff members, and their income and consumption level rose rapidly, leading to the second round of accelerated economic growth in China from 1984 to 1988. These achievements show that the acceleration of reform and opening up to the outside world is the cause and that the rapid economic growth is the result. This can also be proved by the higher economic growth rate of the coastal cities in the special economic zones compared to other coastal cities and hinterland cities. If we are to accelerate the pace of economic development in the 1990's, we should still start by accelerating the pace of reform and opening up to the outside world.

Second, we must accelerate the pace of readjusting the economic structure. Why did the high economic growth

spurred by reform and opening up in the 1980's not result in the same disastrous results that followed the "Great Leap Forward" and the "leap to learn foreign things." An important factor is that high growth was accompanied by structural readjustment in industry. According to statistics, between 1952 and 1978, the annual total output value of Chinese society grew an average of 7.9 percent, with the top and bottom deviations being plus 24.8 and minus 41.1 percent respectively; whereas between 1979 and 1988 the average annual growth was 11.3 percent, with plus 6.5 and minus 5.6 percent top and bottom deviations. The relatively high growth rate and small deviations in the latter have been caused by the shift in the industrial structure to meeting the ultimate demands of consumers since the introduction of reform and opening up. The fast speed achieved in 1958 as a result of the self-circulating structure of heavy industry under the policy of "taking steel as the key link" is definitely a disproportionately high growth rate. However, the strengthening of ties among industries today has greatly reduced the possibility of serious disproportions caused by a relatively fast growth rate. Despite this reduced possibility, further structural readjustment is still a major task in a new round of endeavors designed to accelerate growth. In order to avoid redundant production in the processing industry and overstocking of products, we must free ourselves from the outdated thinking of competing for projects in the processing industry and must accelerate development of the tertiary industry. At present, the tertiary industry constitutes only 27 percent of China's gross national product (GNP), and 31 percent of Shanghai's. However, in developed countries, tertiary industry contributes to more than 60 percent of GNP. The development of tertiary industry requires a small investment but can turn out great output and provide jobs to a large number of people; moreover, there is great potential for consumer demands for tertiary industry. Therefore, faster development of tertiary industry will not trigger problems related to an "overheated" economy. The heartening news report about "commercial enterprises merging with industrial enterprises" recently in Beijing reflects the general trend for accelerating development of China's tertiary industry. We should vigorously advocate and publicize such cross-industrial structural readjustment, as well as closing, suspension, and merging of enterprises and the shifting of their lines of production in the course of deepening reform.

Third, we must accelerate the pace of raising economic efficiency in enterprises. Really fast growth must be accompanied by high efficiency. At present, state enterprises are plagued by serious problems of poor efficiency. This is a longstanding and deep-rooted issue. As state enterprises are still devoid of the necessary managerial authority and constraint mechanisms and cannot freely transfer and combine production elements, new measures for improving enterprise performance can hardly produce any desired results within a short time. Even with this being the case, we still cannot return to the path of reproduction on an extended scale. Stressing output

value while neglecting efficiency and stockpiling excessive products in warehouses are in fact manifestations of formalism in economic work. To find an effective cure for this malady, we must thoroughly comprehend the Marxist dialectics of Comrade Xiaoping's speeches made during his tour of the south. We must take bolder and faster steps in blazing a trail for developing a fast-growing and highly efficient economy primarily through making reforms, opening up to the outside world, readjusting structure, and improving performance.

Fourth, we must accelerate the pace of scientific and technological progress. Recently people nationwide have shown keen interest in reports about scientists and technicians in Zhuhai and other places being presented with handsome rewards. This generally reflects a growing awareness among people that "science and technology constitute the primary productive force." The rapid growth of China's economy in the 1980's was realized mainly by relying on the policy as well as science and technology. Acceleration of development in the 1990's will rely mainly on science and technology, in addition to the policy. We must energetically develop high and new technology, which is unique in its high added value and market potential. An ordinary machine tool used to be sold for between 10,000 to 20,000 yuan, but today's price of a numerically controlled machine tool of the same type today has increased more than 10 times. The per capita value of sales of enterprises manufacturing traditional electrical and machinery products is only several thousand yuan, but that of the Shanghai Bell Telephone Company has reached 500,000 yuan. This is why Comrade Xiaoping repeatedly emphasized, in his speeches during his tour of the south, the importance of science, technology, and education for accelerating economic development. In view of Shanghai's powerful contingent of scientific and technical personnel, we should pay even greater attention to speeding up scientific and technological progress.

After clarifying the reasons and ways for accelerating development, we can understand more precisely Comrade Xiaoping's call for "striving to develop the Chinese economy to a new stage once every several years." This means that we should seize a good opportunity to make a leap and, after stabilizing the economy for a period of time, repeat the leap again. Through such a cycle, we should be able to usher our economy into a stage of fast development, thereby strengthening our comprehensive national strength and further improving the people's material and cultural living standards. Such a course of accelerating development is different from the "incremental course" of taking "small steps continuously" and from the "roller coaster course" of making quick ups and downs, such as the "Great Leap Forward" and the "leap to learn foreign things." At present, with the necessary internal conditions and a favorable international environment, it is imperative and entirely possible to strive to take several steps toward faster growth and better efficiency and usher in a new stage of economic development in China. We must foster such lofty aspirations.

Article on Avoiding Economic Overheating

HK2903151792 Fuzhou FUJIAN RIBAO in Chinese
1 May 92 p 6

[Article by Yang Tao (2799 3447) and Wang Kaiming (3769 7030 2494): "Will Overheated Economy Occur Again Because of Accelerating Economic Growth?"]

[Text] Seizing the favorable opportunity and quickening the pace of economic development has become people's consensus, but some comrades are still worried whether the present accelerating economic growth will lead to another round of economic "overheating."

Their concerns are understandable, because we had the negative experience of economic "overheating" in 1988, which was mainly caused by the fact that the greatly swelling gross demand in society stimulated abnormal growth in social production and investment, which exceeded the comprehensive supply capacity of the production factors and led to an imbalance between gross supply and gross demand in the economy. In the third year of the economic adjustment and rectification, namely in 1991, the state relaxed credit controls in order to set the economy in motion, and the total social investment in fixed assets that year increased by 82.9 billion yuan, or 18.6 percent over that in 1990. Various types of bank loans also increased by a big margin. In particular, more than 30 billion yuan was used to clear the debt chain defaults. At that time, some comrades were also worried that the economy might become "overheated." In fact, there was no "overheating" in 1991. This then raised a question for us: In 1988, the total social investment in fixed assets amounted to 449.7 billion yuan, but in 1991, this amount increased to 527.9 billion yuan. Why did the substantial growth in capital investment not give rise to an "overheated" economy in 1991? As the total social investment in fixed assets in 1992 is expected to be even higher, will this lead to a recurrence of "overheating"? In our opinion, "overheating" is likely to appear, and we should prevent "overheating." At the same time, however, we should note that the economic environment in 1992 is very different from that in 1988, and this finds expression in the following facts:

1. The economic structural reform in past years has been continuously going on in depth. In particular, since the beginning of this year, reform has been advancing toward the substantive objective of transforming the management mechanisms. Under this situation, the control mechanisms in various investment entities have begun to take form. When applying for loans to make construction investment, the enterprises give more consideration to the returns on the investment projects, the quality of the new products to be developed, and the market capacity of the new products, as the enterprises must bear sole responsibility for their own profits and losses. This is very different from how things were in 1988, when the enterprises were still eating from the same "big pot" of the state and vied with each other for

loans and appropriations from the state to start investment projects. Of course, at present there remains a rather strong investment desire in various localities. However, the problem of declining economic results in the enterprises is becoming more pressing, and the enterprises themselves are also facing a shortage of working funds. This is to a large extent restraining investment expansion and "overheating."

2. The gradual adjustment of the industrial structure and the product structure, and in particular state investment's gradual inclination toward agriculture and basic industry has prevented the "overheated" expansion of the processing industry. In 1991, the units owned by the whole people made 53.3 billion yuan of investment in raw material production, an increase of 24 percent over the previous year and accounting for 16.1 percent of their total investment, made 46.8 billion yuan of investment in transportation, postal services, and telecommunications, an increase of 40.1 percent and accounting for 14.1 percent of their total investment, made 10.1 billion yuan of investment in agriculture, forestry, and water conservancy, an increase of 31.2 percent and accounting for 3.1 percent of the total, and although the proportion of the investment in the energy industry slightly declined, the investment of 94.29 billion yuan was not a small amount. All this formed a striking contrast with the situation in 1988, in which investment was seriously tilted toward the processing industry. Due to the "overheating" around 1988, the processing industry has been forced to seek development mainly through tapping internal potential, and this will effectively restrain the processing industry from being further bogged down in "overheating." At the same time, through industrial restructuring, the longstanding problem of duplicated construction will also be thoroughly solved.

3. The market has become much more mature than before. In addition to the commodity market, which has been highly developed, the labor market, the financial market, and the technology market have all undergone substantial development as compared with things in 1988. Moreover, market management has gradually become more regular and effective. Market forces are playing a regulatory role over a wider scope in the economy. Along with the growth of the market and the strengthening of the market's regulatory forces, commodity prices are giving more accurate expression to relations between supply and demand, and prices in producing areas and marketing areas have become better coordinated. The bearing capacity of the market in our country is no longer as weak as in 1988. Through the three-year economic adjustment and rectification, market order has been greatly improved, and the market can maintain relative stability much better than before.

4. Available material resources in society have become much richer, and a buyer's market has basically taken shape. In the last five years, the production of industrial goods needed by the people in their day-to-day life, including color television sets, refrigerators, and washing machines, has increased sharply, and the production of

capital goods, such as steel products and cement, has also increased rapidly. Grain, cooking oil, and nonstaple foodstuffs are stockpiled in large quantities. Many so-called "products in short supply" in the past are also oversupplied at present, and this has rarely been seen before. In addition, the state information center's recent survey of oversupplied consumer goods showed that at present, 77.8 percent of knitted goods and cotton textiles, 61 percent of household electric appliances, 42.8 percent of sweets, cigarettes, and wines, and 23.3 percent of household supplies and stationery were oversupplied. The stockpiling of so many commodities was partly caused by the inferior quality of some products, but a more important factor was the incongruity between the product structure and the demand structure. Therefore, in view of the market situation, what we should worry about is not "overheating," but the issue of how to adjust the product structure in our enterprises and enliven the market as quickly as possible so that materials can be used properly and goods can be sold smoothly.

5. The steady advances of the price reform and effective price management have made prices more accurately reflect the value of commodities as well as the relation between supply and demand, and the phenomenon of price distortions has been greatly reduced. Being different from the 1988 situation, in which reckless action was taken to challenge the price structure (mao ran chuang wu jia guan 6319 3544 7068 3670 0116 7070) before the necessary conditions existed, at present there is a basic balance between gross supply and gross demand. So the regulatory function of the market mechanism can be brought into more effective play in price reform. Since early 1991, the state has successively adjusted the prices of such basic products as crude oil, refined oil products, steel products, and pig iron as well as the railway freight rate. At the same time, the sale prices of grain and cooking oil have also been raised. However, the price increases did not cause major market fluctuations, and the overall retail price level in the whole country rose only by 2.9 percent. At present, only 23 percent of the total value of goods and services in our country are subject to the state's fixed prices. The remaining 73 percent of goods and services are subject to the state's guidance prices or free market prices. As the market prices are close to the actual value, the situation is obviously more favorable to our efforts to consciously apply the law of value in both the macroeconomic and microeconomic fields, and the law of value can better serve our economic construction.

6. The people's consumption is relatively saturated. In particular, durable consumer goods have entered the houses of ordinary people, so it is not easy for another round of panic buying sprees to take shape. For most families in our country, the previous round of buying sprees had already eroded a considerable part of their savings. The period for changing durable consumer goods has not yet arrived, and another consumption boom will not take shape in the near future. In a word, the market in our country is still in a period of stable

development. At present, most people are not worried about "tide of panic buying", instead, they are worried about market slackness, product stockpiling, and the people's behavior of waiting with money in their hands rather than buying. The mentality of consumers has become much more stable.

Therefore, we can say that as long as we strengthen macroeconomic management, it is completely possible to avoid another round of "overheating."

As a matter of fact, while being worried about "economic overheating," people are mainly worried about the "overheating" marked by a high growth speed and low economic efficiency. A high growth speed accompanied by high economic efficiency will always play a positive role in promoting economic development. In the first half of 1991, the total industrial output value of Guangdong Province increased by 27.1 percent over the same period of 1990, and the investment in fixed assets made by units owned by the whole people increased by 37.7 percent. This far exceeded the "overheating" warning level. However, no double swelling of investment and demand appeared in Guangdong. Why? First, attention was paid to ensuring proper economic efficiency. Second, efforts were made to guarantee product quality and marketability. Third, an outwardly oriented economy was formed. Therefore, we hold that under the present favorable situation, for Fujian, as a province shouldering the task of carrying out experiments for comprehensive reforms, we can prevent the phenomenon of "overheating" and raise the economy rapidly to a new stage as long as we always bear in mind the principles of efficiency, quality, and an outwardly oriented pattern in the course of accelerating development.

Article on Making Use of Capitalist Things

OW2804195392 Hangzhou ZHEJIANG RIBAO
in Chinese 21 Apr 92 p 3

[Article by Chen Ning (7115 1337) and Ying Huanhong (2019 3562 4767): "Make Use of Useful Capitalist Things To Serve Socialist Construction"]

[Text] The key to achieving the grand goal of China's modernization drive lies in upholding the basic line of "one central task and two basic points" and in firmly continuing reform and broadening the scope of opening up. Therefore making use of capitalism to serve the socialist modernization drive as an important element of reform and opening up should be carried out for a long period as a matter of course. But some comrades are skeptical about this, and therefore usually balk at doing things this way. Their worries have been especially compounded since upheavals took place in East Europe and the Soviet Union disintegrated. These comrades feel that making use of capitalism will result in serious consequences and therefore should be held for a while. I think their worries are unfounded because what we mean by "making use of capitalism" mainly refers to making

use of capitalist countries' modern technology and management skills, which will contribute to developing the socialist social productive forces, to increasing socialist countries' overall national strength, and to raising the living standards of people in socialist countries. In short, it will help fully bring out the virtues of the socialist system.

Making Use of Capitalism Is an Objective Need for the Socialist Modernization Drive

The socialist economy is a planned commodity economy characterized by socialized large-scale production. This defines the socialist economy as an open economy. Socialized large-scale production requires extensive exchanges and cooperation with other countries in resources, fund, technology, management, and other areas; these exchanges and cooperation cannot be carried out in one country or region. Besides, the functioning of a modern commodity economy itself cannot be limited within one country or region; modern commodity economies lead a country's economic development to a path closely connected to international economic development.

Currently the socialist economy and the capitalist economy exist simultaneously and make use of each other. The socialist economy needs to make use of the capitalist economy, and the reverse is true. In this situation of making use of each other, whoever can better discover and make good use of the other side's merits and strengths to meet its own needs will gain the initiative and hold a favorable position.

In this respect, our revolutionary mentor Lenin has set a good example for us. After the October Revolution, he repeatedly cautioned everyone that there is no socialism other than the socialism built on the basis of modern materials and technology and of ideological and cultural results. This is to say that socialism should not only accept civilization's results produced and accumulated under the capitalist system, but should also strive to make use of these results to make them a means for building socialism. As to what socialism is, Lenin devised a well-known formula: Soviet political power plus Prussia's railway management order plus American technology and trust organization plus American public education equals socialism. We can see from this that Lenin's thinking on making use of capitalism is in-depth and his attitude is clear-cut.

At one point we also took a wrong path on this issue. During the "Cultural Revolution" period, domestic turbulence and the country's isolation from the outside world caused tremendous losses to our national economy. During the same period, some of our neighboring countries and regions took advantage of adjustments in the international economy to extensively take part in international work division and exchanges, enabling their economies to develop by leaps and bounds. Compared with these neighbors, the lesson we have learned seems especially painful.

The Third Plenary Session of the party's 11th Central Committee summed up the pros and cons of experiences and lessons we had learned, and made the strategic decision of opening up to the outside world and vitalizing the domestic economy. Since then, our economy has begun to change from a closed to an open one, providing the possibility of making use of capitalism. Over the past decade and more, we have made major breakthroughs and scored achievements that have drawn worldwide attention in developing foreign trade, in utilizing foreign funds, in establishing special economic zones, and in making use of western countries' modern management skills. Facts have convincingly proved that making use of capitalism can speed up the process of the socialist modernization drive.

Making Use of Capitalism and "Wholesale Westernization" Are Completely Different

"We are importing so many capitalist things. Is not this an attempt to promote wholesale Westernization?" asked some comrades. In fact, this is a misunderstanding of the meaning of making use of capitalism. Making use of capitalism, does not mean that all capitalist things will be adopted without distinction. Our principle is that "we will use what is useful to us," not "we will use all capitalist things." That is to say, we will apply what is conducive to our socialist modernization construction. Otherwise, we will not consider applying capitalist things, and when necessary, we will resolutely resist capitalist things. Hostile forces in the West also hope that we will make use of capitalism, but their objective is to Westernize our country. They are trying to sell us economic privatization, political pluralism, and ideological liberalization, things that can shake the foundation of socialism. Regarding advanced technology, scientific operations, management experiences, and other things that we need, they try to hide them from us and are extremely unwilling to let us acquire them. They are acting this way because they have an axe to grind. In practice, the Western countries have been repeatedly disappointed because we have stuck to the principled stand of "making use of what is useful to us." As a result, they have frequently tried to hamper and restrict us and have even openly imposed "sanctions" against us. These negative experiences show that our application of capitalism has been successful and has been conducive to our socialist modernization construction.

On the other hand, quite a number of capitalist things that we are applying are "products" from the West, but the overwhelming majority of them are not "patent products" of the West; they are common achievements of human civilization. Specifically speaking, these are the forms and means needed in developing the production of modern socialized commodities. All countries, whether capitalist countries or socialist countries, must adopt them if they are engaged in the production of modern socialized commodities. Let us take stock as an example. It is a means with which enterprises raise funds

and transform part of consumption funds into accumulation funds. Stock is the inevitable product when socialized commodity production develops to a certain stage. The problem of whether it is "capitalist" or "socialist" does not exist in stock itself. In our country, along with the expansion of production in enterprises and the continuous technical transformation and equipment upgrading undertaken by enterprises, the problem of financial sources needs to be urgently solved. In the past, enterprises relied on financial appropriations or bank loans. This method can no longer meet the increasing financial needs of enterprises. Under these circumstances, pooling idle funds in society by means of issuing stocks to provide enterprises with funds is an important channel for raising funds. As valuable securities, stocks are bound to enter markets, and thus stock markets are formed. This is inevitable. Then, is there no difference between the stocks of a socialist society and those of a capitalist society? There obviously is a difference. Stocks in a capitalist society are designed to raise funds for capitalists to expand investments so they can suck up more surplus value; stocks in a socialist society are used mainly to accumulate funds for publicly owned enterprises, and the final goal of stocks is to lay down a material basis for improving people's living standards. In perfecting market mechanisms, encouraging equal competition, setting up a macroeconomic regulatory system, integrating a planned economy with market regulation, developing foreign trade, importing foreign capital, and so on, we have to learn from the scientific and rational parts of capitalist economic principles and policies. Speaking of Western economic theories, part of the theories includes a general analysis of large-scale production in society and the law governing a commodity economy, and an exposition of the rational distribution of economic resources in order to optimize economic results. Western economists have conducted large-scale and thorough studies of how governments should exercise macroeconomic control over the economy and how they should realize the effective distribution of resources under conditions where no restrictions are imposed. There is much in these things that we can make use of.

Some people will ask: If the majority of the things we are making use of does not exclusively belong to capitalism but are common achievements of human civilization, why have these things never been seen in our society and yet commonly occur in capitalist societies? To clarify this question, we should view it from two aspects. 1) Capitalism has few hundred years of history. Capitalism entered the stage of socialized commodity production a long time ago. Its modes and means of production have been born and brought up along with it and have been applied extensively up to now. 2) Socialism has only a few dozen years of history. It was built on a foundation of poor productive forces. Naturally, socialized large-scale production was started late. Moreover, mistakes were made in the course of explorations. As the mechanism of a planned commodity economy has just been put

into operation, relatively advanced modes of operation and management methods are of course regarded as fresh things.

Strictly speaking, the abovementioned achievements of human civilization that do not exclusively belong to capitalism should be listed under the title "making use of capitalism." The reason we do so is that these things have developed to maturity after long years of practice and tempering under capitalist conditions and are still worth learning from. It is precisely in this sense that we term learning from these things as "making use of capitalism."

Issues in Enterprise Reform Viewed

HK0806072092 Beijing JINGJI CANKAO BAO
in Chinese 18 May 92 p 1

[Article by Yuan Baohua (3913 1405 5478): "Several Questions That Need To Be Considered in Current Effort To Transform Enterprise Operational Mechanism"]

[Text] I recently attended a symposium on transforming the enterprise operation mechanisms in Hangzhou. On the way, I visited Jinhua, Wenzhou, Taizhou, and Ningbo and made some investigations there. The comrades of the local authorities and the enterprise management, encouraged by Comrade Xiaoping's important speeches during his inspection in the south and by the spirit of the Central Political Bureau meeting, were in good mental condition. They generally agreed that through studying the speeches, they had overcome the mentality of seeking stability and fearing chaos and the wait-and-see attitude. At the same time, they also felt great pressure and heavy responsibility. They were considering how to speed up the pace of reform and opening and how to improve and invigorate the enterprises. Some of them had begun to formulate their plans and measures in this regard. Such positive and aggressive spirit is promoting the development of production. Since the beginning of this year, production has been on the increase in these localities. In Ningbo, the growth rate of the large and medium-sized enterprises is close to the city's average level. In the first quarter, it increased by 24 percent over the same period last year. The gap between their growth rate and that of the industrial enterprises at the township level was narrowed from 15 percentage points to only 2.9 percentage points. The number of enterprises running in the red also decreased. Comrade Xiaoping's important speeches and the spirit of the Central Political Bureau have produced great influence, and the situation is very good. Comrades with whom I came into contact generally had great interest in the transformation of the mechanisms, and a number of questions that need to be considered were raised in their discussions.

First, the question about further emancipating people's minds. The key to transforming the mechanisms lies in emancipating people's minds and changing people's

thoughts. Comrade Xiaoping called for being bolder in reform and opening. People generally hold that in order to do this, it is necessary to further emancipate their minds and solve the "leftist" problem. The "leftist" ideology has deep-rooted influence in the economic field, and the extensiveness of its influence should not be underestimated. For example, it was said in a previous period that the factory director responsibility system would weaken the party's leadership; and the danger of peaceful evolution mainly came from the economic fields. Such "leftist" things have not been eradicated in public opinion, and are still shackling the minds of the factory directors, who still have remaining doubts and misgivings in their minds. Therefore, while taking steps to quicken reform and opening, it is also necessary to pertinently eliminate the influence of the "leftist" ideology. It is hoped that central leading comrades will talk more about things in this regard so that people's thinking can be better unified.

Second, the question about breaking the "three irons." At present, the reform of the personnel system, the labor system, and the internal distribution system in enterprises is being taken as the main point in the enterprise internal reform. Pilot schemes are being carried out in various units and localities, and people are highly enthusiastic in doing this. However, the phenomena of formalism and imposing "arbitrary uniformity" still exist in some places. At present, some departments in charge of enterprises try to impose the same pattern on enterprises and require enterprises to break the "three irons" within a set time without regard to the different conditions of various enterprises. In general, the orientation of breaking the "three irons" is correct. However, the factors leading to the "three irons" are very complicated, and the conditions of various enterprises are also different. In recent years, the degree of reform varies greatly from one enterprise to another, and the external conditions for them also vary greatly. So different enterprises should be allowed to act in different ways. Measures taken by an enterprise should be in line with its specific condition, and the previous practice of launching movements, taking mass action, and using administrative means to interfere in enterprise operation should not be repeated. The power to decide the enterprises' internal reform, including the action to break the "three irons," should be delegated to the enterprises. The government work should be focused on formulating policies and coordinating reforms outside the enterprise operation, such as reforming and reestablishing the employment system, the insurance system, the housing system, and the health care system. If the reform of these external conditions does not keep pace with the enterprise reform, the former will have a major adverse impact on the latter. For example, we are now adopting the all-member labor contract system in the enterprises. Some enterprises complain that this method gives greater freedom to workers, but constrains the enterprises. That is, workers can more freely change their jobs, but enterprises still have no independent power to decide the employment of workers. Some skilled workers whom the

enterprises need simply resign from their original jobs in order to make money more freely, but some people whom the enterprises do not need cannot be fired. Workers who resign from their original jobs can also get livelihood allowances in a certain period from the enterprises they previously worked with, as required by the labor department. This is an unreasonable stipulation. The enterprises demand that the government quicken reform and take greater strides in this respect.

Third, the question about arousing workers' work enthusiasm. In the course of transforming the enterprise operation mechanisms, many enterprises have encountered the issue of how to turn the reform into workers' wishes and actions. Some enterprises neglect the role of the workers in reform, and the reform measures give rise to certain antagonistic feelings between workers and the enterprises concerned. Some enterprises in Zhejiang properly handle things in this regard. Their main practice is to repeatedly explain the reform measures to the workers, to do careful and painstaking ideological and political work among the workers, to give full play to the role of the workers' congresses, to rely on the working masses wholeheartedly, and to place the workers in a dominating position in the course of reform. They stress that only by breaking the "three irons" can the socialist productive forces be developed, and this is in line with the fundamental interests of the working class and is another round of "self-emancipation." Only by clearly explaining the significance of breaking the "iron rice bowl" can the workers' enthusiasm be further aroused to create the new socialist "golden rice bowl." In adopting concrete reform measures, these enterprises first stress the need to remove the "iron armchairs [lifelong tenure]" for cadres and solve the problem that cadres can only be promoted and cannot be demoted. After that, the problem of the "iron rice bowl," namely, the system of employing workers, can be solved. Things can be handled more smoothly in such sequence, and workers' enthusiasm can be better aroused. Thus, reform can be supported by the workers. To enhance workers' understanding of the reform and arousing workers' enthusiasm for reform is an important question that must not be neglected. It is also an issue to which attention must always be paid in the whole course of deepening the enterprise reform and transforming the enterprise operational mechanisms.

Fourth, the question about the professional career of enterprise cadres. Since the beginning of reform, a number of young and middle-aged enterprise management cadres have been appointed to the enterprise leading posts. They are working hard. At present, attention should be paid to two issues. First, too many factory directors and managers who make achievements in their work have been transferred from enterprises to various party and government institutions. This has affected the leadership strength in the forefront. Second, the same retirement system is now applied to enterprise cadres as that to party and government cadres (the retirement age is 60 for male cadres and 55 for female cadres), and this

system is not favorable to gathering and fostering a number of experience and authoritative entrepreneurs. At present, many incumbent factory directors and managers are in their 50's, and a small number of them have exceeded the retirement age. In particular, as female factory directors and managers have to retire at the age of 55, they will have not much time to remain in their work posts. These people are still energetic, and have rich management experience, and are mature. They are also supported by the workers, and are playing a major role in stabilizing the enterprises. If they are required to retire according to the current system, it will be a loss. At present, the leaders of many famous enterprises in foreign countries are people of noble character and high prestige. Age is not a decisive condition. In our country, the retirement system for scientists is different from that for government cadres (the retirement age for associated professors is 65, and that for professors is 70). It is proposed that the retirement age for factory directors also be adjusted appropriately and that enterprise cadres be treated as professionals and the number of factory directors and managers being transferred to government institutions be reduced. It is also proposed that the retirement system for government cadres not be applied to enterprise cadres. This will be favorable to stabilizing and building up a contingent of enterprise management experts in socialist China.

Journal Views Coordinated Fundraising Measures

HK1606022392 Beijing JINGJI GUANLI in Chinese
No 3, 5 Mar 92 pp 23-26

[Article by Wang Zilin (3769 1311 2651): "Measures for Coordinated Penning of New Fundraising Channels"]

[Text] Troubled by the economic downturn and the lack of means to make a recovery in recent years, people have been eagerly seeking ways of opening new fundraising channels to ameliorate the contradictions between the diversification of investment and a well-structured economy of scale and between contraction of investment on the one hand and economic growth and upgrading of industrial structure on the other. Views have been divided on this question. Some people are in favor of expanding the fundraising channels. They call on the state financial departments, banks, and enterprises to join hands in an effort to substantially increase the total supply of funds available for investment. Some are in favor of replacing the fundraising channels. They think that in fundraising, we should rely less on state financial departments, stabilize the role of the banks, go all out to open up the capital market, and replace the investment function of state ownership with direct investment by enterprises, particularly individuals. These propositions have provided us with clues for further studies, as they are all directed against matters of concern to the public. In my opinion, whether or not measures for raising funds are correct or not depends on whether they can ameliorate the two contradictions mentioned above. From this basic point of view, it is not difficult to see that the "theory of expansion" stresses scale at the expense of

structure while the "theory of replacement" stresses the market and negates the investment function of state ownership. Neither is recommendable because both are tied by traditional ways of thinking, which tend to attend to one thing and lose sight of another. The gist of the "theory of coordination" discussed in this article is that each channel has its own role to play, is governed by its own set of regulations, and is assured of smooth flow, and that the potential of each channel is fully tapped. It can guarantee the effectiveness of fundraising and is in keeping with the state's industrial policies and the overall requirement of invigorating enterprises.

1. Each has its own role to play. Under the commodity economy, there are two types of fundraising on the whole. The first type involves the raising of capital, where investment forms not only assets but also the ownership of capital. The second type involves the raising of credit capital, where normally the use of credit does not directly form capital, and where credit can circulate between different owners. These two types of fundraising are mainly carried out through the following three channels: First, the fiscal channel. Through the distribution of national income, financial resources are pooled from the whole society to form government capital to be spent on supporting the development of the national economy and the economic sector under ownership by the whole people. Second, the banking channel, including direct and indirect banking. Through financing in the realm of capital circulation, credit capital is obtained by subject fundraisers and is put to use according to the principle of credit. Third, the equity channel, which includes the ownership and management of assets. The characteristic of this last channel is that it combines fundraising with the formation, use and management of assets, and makes use of the equity mechanism to raise and use funds. In recent years, investment arranged by enterprises accounted for more than half of total investment in fixed assets. Each of these three fundraising channels has its respective functions and areas of responsibility, and it is extremely harmful to arbitrarily fix their order of importance or to concentrate on only one channel.

State financial departments represent a necessary channel for the initial formation of state assets. They are the basic channel for ensuring the necessary financial resources for coordinated social and economic development. Can the function of the state financial departments in construction and fundraising be reduced following the establishment of a new structure, that of the planned commodity economy, which has public ownership as the main form of ownership? The trend is that society will be able to retain a larger share in the primary distribution of national income. Through multiple channels of redistribution and on the premise of equal tax burdens, a necessary scale of fundraising by state financial departments is maintained to meet the needs of macroeconomic control as well as the needs for capital input to keep public ownership as the main form of ownership. At present, state investment in enterprises is

in the form of loans rather than appropriations, and the full amount is always lent by banks. Additional investment also mainly takes the form of loans. The fact that enterprises are formed without starting capital makes the management of ownership difficult. Some enterprises find their survival and development in serious trouble because they are embroiled in equity disputes and operating under heavy liabilities. This shows that the invigoration of large and medium state enterprises will be affected if the distinction between capital input by state financial departments and the input of credit capital is blurred.

In the circulation of funds, the monetary system with banks as the main body can make use of the temporal and spatial differences in funds to form converging public financial resources which are highly maneuverable, fluid, and subject to the hard constraints of credit relations. As an important lever in the macroeconomic control mechanism of the planned commodity economy, it lends effective support to the realization of the state's industrial policies and policies of technical transformation. It is true that the opening of the capital market will increase the weight of securities as a means of financing. However, because of their extensive contacts and sensitivity, as well as their role in macroeconomic role, banks will naturally play a pivotal role between the planned economy and market regulation. Its position in investment financing is unshakable.

The equity system with government departments responsible for the management of state assets as the nerve center, state asset proprietary business operators as links, and enterprises working with state assets as the cells is a fundraising channel which has gradually matured through reform in the past decade and more. Since the equity management and operation structure ultimately bears the risks and gains of investments and is directly and clearly responsible for maintaining and increasing the value of assets, it will gradually become the subject fundraiser in its capacity as direct investment responsibility center.

Since fiscal, banking, and equity channels each has an important and irreplaceable function to fulfill in the socialist planned commodity economy and each plays a different role in fundraising, it is necessary to ensure that they each take their own place and fulfill their role.

- Maintain the leading position of state financial departments in the distribution of national income, the control of state financial departments over the scale and structure of capital formation under various economic forms, and the necessary scale of input by state financial departments in the formation of state assets.
- Maintain the position of banks as the principal financing channel; give full scope to their many advantages, such as extensive contacts, low cost, high sensitivity, and good maneuverability; and truly turn banks into conversion controllers that combine the planned economy with market regulation.

- Maintain the position of the equity channel as subject fundraiser and, through strict equity control and the establishment of investment responsibility centers, ensure the effectiveness of investment financing.

2. Each is governed by its own set of regulations. It is necessary to formulate regulations to govern fundraising activities. This means that we must observe the objective laws of fundraising and application, proceed from the objectives of developing a planned commodity economy; and formulate policies, laws, and regulations to ensure that fundraising activities are carried out according to these objective laws. Since it is by no means unusual for people to go against the objective laws and thus "become more of a hindrance than a help" either wittingly or unwittingly, it is necessary to observe the following rules when formulating regulations: —Rules governing the total supply and demand. From the objective limits of the movement of funds, we can see that the amount of funds available for compensation and accumulation is determined by gross national product and the convertible amount of the consumption fund at a given period. In a given time and place, financial resources from different channels and for different uses grow and decline in relative ways. In principle, fundraising cannot create additional investment on a large scale. The present danger is that when planning the scale of investment, funds from state financial departments, banks and enterprises are stretched to the full and large gaps are left for fundraising. These gaps could well provide opportunities for credit inflation and runaway investment. Rules governing total supply and demand require that the aggregate scale of fundraising channels be brought within the framework of total investment available. Regarding total investment available, it is necessary to work out the convertible amount of the consumption fund at the normal savings rate. When planning to increase the flow of funds through a particular fundraising channel, it is necessary to appropriately reduce the flow of funds through other channels in accordance with actual conditions, and ultimately achieve an overall balance through readjustment of the scale of bank credit.

- Rules governing the targets. Fundraising involves many targets, such as targets for economic development, structural readjustment, and structural reform. Because of the diversification of subject fundraisers, the pursuance of individual targets in the absence of overall coordination often leads to clashes of targets and the intensification of contradictions. We are now faced with this potential danger. In order to boost economic development, we have to make use of all fundraising channels at the same time, in order to readjust the investment structure, we have to increase the share of investment controlled by the state; in order to blaze new trails for the reform of the investment structure, we have to further open the capital market and increase the share of funds directly raised by enterprises. The "simultaneous discharge of three arrows" will upset the overall balance. Besides, their targets clash. Our objective in establishing rules for

these targets is as follows: First, to bring about harmony between different targets, seeing to it that they are mutually accommodating, rather than concentrating on one target only. Second, to calculate the fundraising scale for achieving individual targets, and subject this to the direct control of the overall fundraising scale. Third, to ensure that the authorities concerned can strike an overall balance and organize implementation on behalf of the state, and to prevent the chaotic state of affairs where different government departments can issue orders or even do things their own way.

—Rules governing cost. In fundraising, there are also cases where cost and efficiency are ignored. In order to scramble for a larger share, no cost is spared as "interest rate battles" and "battles between organizations" are fought. In these cases, the cost is subsequently passed on to enterprises, with the result that everyone suffers. At present, the interest rate on bonds are higher than the average profit rate on industrial investment. A considerable share of funds raised by bond issuance comes from savings. Interest rate on funds raised (marginal fundraising cost) is about three times the interest rate offered by banks for long-term deposits and several times that of the profit rate on industrial investment. Thus, it is a kind of "hemorrhage fundraising." Some financial institutions get by on low interests prescribed by state policies for government and mass organizations and on state credit funds. In formulating rules for costs and establishing an efficiency-oriented fundraising system, it is necessary to discard the traditional mode of thinking based on the scale impulse, and clearly define the following policy restrictions: First, competition for more savings by jacking up interest rates or offering disguised forms of interest rate increases is to be prohibited. Second, interest rates on funds raised must be subject to the profit rate on industrial investment. The interest rates on funds raised by state financial departments, banks, and state asset management departments should not as a rule exceed the average profit rate on capital. In the case of funds raised for special purposes, where interest rates higher than the average profit rate on capital must be offered, it is necessary to seek approval or authorization from the National People's Congress. Dividends payable on shares and bonds issued by state enterprises should not as a rule exceed the profit rate on capital. Should exceptions be required under special circumstances, it is necessary to obtain authorization from the equity management departments or management departments specified by the state. Third, when regulating the scale of fundraising through various channels, it is necessary to take the fundraising cost as an important basis of selection.

3. Each is assured of its smooth flow. With the total financial resources in society remaining as is, the widening of fundraising channels can increase the total supply of investment to a given extent. In recent years, most of the fundraising channels lacked control. Under

the circumstances, there is a considerable "floating fund" in society. The following policies and measures may be adopted to unclog the fundraising channels.

—Blocking the loopholes in the fiscal channel. Loopholes are found in the whole process of capital inflow and outflow. First, through such measures as equal tax burdens, control of tax fund and strict tax laws, efforts should be made to prevent revenue losses due to tax evasion, tax leakage, illegal reduction of tax rates, and interception of profits turned over, in order to bring about a rough balance between the actual tax burdens borne by state enterprises and economic sectors other than foreign-funded enterprises. Second, efforts should be made to discard by groups and by stages burdens of subsidies. For instance, we should discard burdens brought on losses due to poor operation by integrating the readjustment of the enterprise organization structure with the readjustment of the production structure; discard burdens brought on by losses permitted by policy or price subsidies, particularly subsidies for industry-wide losses, through reform of the pricing system, and appropriately reduce housing subsidies and investment through reform of the housing system. The public will find these measures of readjustment acceptable provided they are carefully organized. Third, efforts should be made to "open the front door" and "block the back door" in financial expenditure. As a result of the abuse of public institutions by administrative departments, the abuse of enterprises by public institutions, the abuse of projects not covered by the state budget by projects within the budget, and the abuse of the lower authorities by the higher authorities in fiscal outlays, various fixed quotas, rules, and regulations as well as budgetary control exist in name only to a large extent. The absence of restrictions over fiscal outlays has resulted in losses and wastes and the prevalence of unhealthy practices. By blocking evil and underhanded practices and opening the "front doors" with both assurance and pressure in accordance with the principle of seeking truth from facts and by relying on budgetary constraints and public supervision, it is possible to spare money from existing fiscal outlays for construction purposes.

—Clear the hold-up of credit funds and change the tendency to stress the addition of new sources of credit in the current year at the expense of the further tapping of loans in arrears. There are roughly four types of loans in arrears. First, bad debts that cannot be recovered or have a very slim chance of being recovered, including loans for fixed assets and corresponding circulating funds. This kind of hold-up results in real cuts in state credit funds. A system of loan risk premium should be established. For loans within the normal standard, efforts must be made to prevent bad debts by requiring compensation for the earned income of banks and by imposing economic constraints on financial enterprises. For loans above the normal level, those directly responsible should be

held answerable. Second, working capital loans required for normal turnover. Loans of this type constantly circulate in the realm of production, and their demand is constantly growing as the scale of production expands. The expediting of the turnover of working capital can slow down the growth in demand. In this connection, much can be achieved by improving the mode of bank settlement and by helping enterprises speed up the turnover of funds. Third, abnormal spending of working capital loans, such as funds tied down by overstocking and dead stocks. The imposition of a penalty rate does not prove very effective. Banks and enterprises should adopt the practice of linking loans to overstocking and implement the method of direct quantitative constraints. At present, funds tied down by above-normal inventory in enterprises under ownership by the whole people amount to some 70 billion yuan a year. It is entirely possible to reduce some of this inventory in support of technological advances and technical transformation. Fourth, the recoverable part of fixed asset loans in arrears. Unlike the normal use of loans for liquid assets, which are "short-term loans for long-term use," they are credit resources that are truly transferable. At present, fixed asset loans in arrears amount to more than 224 billion yuan. If 15 percent of these can be recovered (overall recovery period between six and seven years), we are talking about more than 30 billion yuan. Thus, when granting loans, it is necessary to fully take the recovery factor into account, change the concept of stressing interest income at the expense of credit turnover and recovery, and truly inject life into the existing stock of loans.

- Switch from interest rate competition to service competition. Through the creation of different types of financial assets and the development of diverse financial services, we can pool idle funds and inject them into construction funds through excellent, efficient, convenient and inexpensive financial services. Instead of relying on low-interest group deposits, we should rely on competition to develop the financial sector.
- Scientifically make use of money in the hands of residents and units. At present, such funds amount to more than 200 billion yuan. Residents keep money in their own hands because they are too lazy to deposit their money in banks and because they find it more convenient this way. There are two ways to make use of these resources. One is to offer convenient services. The other is to dilute these resources, that is, to issue bank notes regarding the stabilizing stock of funds truly needed by society so money in hand no longer means material resources held up. In this way, we can make use of the material resources represented by money in hand without any cost.

4. The potential of each channel is fully tapped. This means that we must expand the functions of various fundraising channels through the innovation of mechanisms.

—Innovate the functions of the fiscal channel. When using fiscal funds, it is necessary to use the funds as a kind of leverage to meet the demands for state capital investment and the orientation of industrial policies. One way to do so is to "replace loans by capital investment." Under normal circumstances, the state financial departments must invest a certain sum in all newly built large and medium state enterprises, particularly large and medium enterprises which mainly rely on government loans, as capital investment. The equity relations must be clearly stated and brought within the framework of the normative management of state assets. The other way is to arrange "introductory investment." What this means is that in accordance with the requirements of the state's industrial policies and policies regarding technical transformation, the state will give preferential treatment in the form of subsidized loans, discount rate of interest, or reduction or remission of interests, to certain projects requiring investment in order to attract investment. This is an indirect means of fundraising. This kind of "introductory investment" should mainly go to enterprises under ownership by the whole people. When this measure is applied in other areas, equity relations should be clearly specified.

—Bring about the innovation of mechanisms in the equity fundraising channel. As the investment responsibility center, the equity channel awaits systematic development. In particular, following the division of the general economic management function and ownership function of the state and the establishment of a special system for the management of state asset ownership, there are new guarantees for the expansion of the equity fundraising channel. The key task in expanding the equity fundraising channel lies in the innovation of the mechanism of state investment. On the whole, we should gradually innovate the mechanism for the integration of the processes of "investment—construction—use—return" in state investment, and put an end to the old practice of the segregation of such processes in state asset investment, where units in charge of investment are not responsible for construction, those responsible for construction are not responsible for utilization, and those responsible for utilization are not responsible for returns, in other words, where there is division of work but no overall planning. The target and responsibility of maintaining and increasing the value of state assets must be implemented in the whole process of investment, with specific economic entities to assume responsibility in the whole process. At the same time, it is necessary to introduce the market mechanism into the equity organization, ensure that investment made by the equity investor is highly fluid, combinable, and incremental, and bring about the integration of investment increments and benefits. With this in mind, we may try to expand the equity channel in the following ways:

First, strengthen planning, improve the market, promote the circulation of existing state assets and their optimum

allocation, and establish a fund for the optimum allocation of existing assets with income from equity transfer. If 10 percent of existing assets can be effectively circulated, we will have at our disposal financial resources equivalent to additional capital construction investment for a whole year.

Second, establish a mutual-aid and cooperative joint-stock foundation for investment in enterprises in an effort to turn the hundreds of billion yuan of investment funds currently scattered in different enterprises into a joint force to ameliorate, on a large scale and by a large amplitude, the contradiction between the dispersion of funds on the one hand and economy of scale and structural readjustment on the other. In accordance with the common interests and needs of cooperative enterprises, the joint-stock foundation will conduct key renovation and investment in individual trades or regions. Additional earnings thus obtained will be distributed among cooperative enterprises on the basis of the shares of investment. Through capital input, relations of mutual shareholding based on the principle of benefits are established between enterprises.

Third, develop the internal fundraising function of enterprise groups. By authorizing the general management department of enterprise groups to manage the state-owned assets of the enterprise group, the general management department will be in a position to exercise overall control over the depreciation fund, new product trial manufacture and technological development fund, production and development fund, and so on, and do a good job in key development and renovation projects.

Fourth, develop the market fundraising function of state investment companies. Investment companies should be permitted to raise funds in the market through such means as stock and bond issue within the parameters of the state plan and under the direct constraints of investment recovery period and return of capital investment. Investment companies should be appropriately developed because they have stronger fundraising cost constraints and have more advantages to offer than fundraising by bonds issued by banks and financial institutions. They are also more manageable and better known than enterprises, and have more ways and means of reducing the cost of fundraising. However, it is necessary to maintain a normal ratio between fundraising through the market and fundraising through banking institutions. On no account should the functions of banks be weakened.

—Develop the trust investment business of banks. This can give the enterprise more options in choosing the areas of investment, and convert part of the public funds into investment. In the field of personal investment, this can also play a given role in converting funds and providing guidance and services.

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[Article by Xiao Zhuojun (5135 3504 1015) of Beijing University School of Economics: "On the Forms of Realizing Socialist Public Ownership"]

[Text] Ownership of the means of production is the basis for production relations and each type of ownership has its own form of realization. The study of the forms of realization of socialist public ownership constitutes an important part of the deepening of reform. Some problems worthy of our attention exist in this study by academics. First, some people confuse the essence of public ownership with the forms of realization of public ownership, thinking that changes in the forms of realization of public ownership will invariably lead to changes in the essence of public ownership. Second, some people see the forms of realization of public ownership as a frozen concept, thinking not only that the essence of public ownership cannot be changed but also that the forms of realization of public ownership cannot be changed. Third, some people see the forms of realization of public ownership as unimodal, thinking that there can only be one form of realization of public ownership. Fourth, some people see particular forms of realization of public ownership as absolute, either stressing their strong points at the expense of their weak points, or stressing their weak points at the expense of their role. Fifth, there is a lack of in-depth study and discussion on the distinctions and links between the present and future forms of realization. Some people regard the current forms of realization as the long-term forms of realization, while others regard the forms that can only be universally realized at some future date as the forms that must be universally realized now. The above state of affairs shows that our understanding of the forms of realization of socialist public ownership is not deep enough and that further in-depth study is in order.

1. Principle for Studying Realization of Public Ownership Forms

What forms of realization should socialist public ownership adopt in order to conform to the objective laws of economic development, accord with the nature of socialism, and bring into play the advantages of the socialist system? To answer this question, it is necessary to bear in mind the following basic principles:

1. The forms of realization of socialist public ownership must accord with the principle of facilitating the consolidation and development of public ownership. Seen in terms of its essence, public ownership as a form of ownership is in keeping with the law of development of productive forces. Under socialized mass production, social and economic contacts are becoming more and more regular, the development of science and technology is gaining momentum, and changes in the industrial structure are occurring with increasing frequency. Since

public ownership is conducive to the exploitation, utilization, and rational allocation of resources, the flow of production factors in the whole society, as well as the development of key scientific and technological projects and industries with concentrated efforts, it can greatly promote the development of productive forces. In practical terms, we can see that our socialist public ownership system is more capable of promoting the development of social productive forces than the capitalist private ownership in old China, which it replaced, or the capitalist private ownership practiced anywhere else in this contemporary world. Thus, when studying and deliberating on the forms of realization of socialist public ownership, we must persist in consolidating and developing the public ownership system. This is the most important and fundamental principle.

2. The forms of realization of socialist public ownership must conform with the requirements of the planned commodity economy. The socialist economy is a planned commodity economy based on public ownership of the means of production. The commodity economy is necessary to realize economic modernization and the full development of the commodity economy is a stage that cannot be skipped in social and economic development. The forms of realization of socialist public ownership should be shifted from the orbit of the product economy to that of the planned commodity economy. In accordance with the requirements of the planned commodity economy, the forms of realization of socialist public ownership must be such that they can help production units exercise management autonomy and assume responsibility for their own profits and losses. They must be beneficial to the participation of production units in market activities and market competition, suited to market demands and market changes, and of help to their survival and development in market competition. They must be conducive to eliminating egalitarianism in production units and laborers and mobilizing people's initiative and enthusiasm with material incentives. They must also help macroeconomic regulation and control by the state so that the sustained, stable, and coordinated development of the national economy can be maintained.

3. The forms of realization of socialist public ownership must suit and promote the development of productive forces. The forms of realization of public ownership are closely related to the state of social productive forces. Changes take place constantly in the nature and level of productive forces in different periods of the development of a socialist society. Thus, the forms of realization of public ownership cannot remain unchanged. They must be planned and readjusted according to the state of the productive forces. This has two levels of meaning. First, in different stages in the development of socialism, there should be differences in the overall form of realization of public ownership in line with differences in the development of productive forces. For instance, in the primary stage of socialism, when social productive forces are on a low level and the economy is not well developed,

it is necessary to design and determine the forms of realization of public ownership in accordance with the situation at this stage. When socialism has developed to an advanced or well-developed stage, the level of productive forces will be substantially higher, by which time the forms of realization of public ownership will naturally undergo major changes. Second, due to differences in the level of productive forces between different regions, departments, or enterprises, there should be different forms of realization of public ownership even during the same historical stage and it is inadvisable to demand uniformity. In actual life, some forms of realization can exist under different levels of productive forces while it is also possible for different forms of realization to coexist under the same level of productive forces. For example, the form constituted by the shareholding system can exist in highly developed regions, departments, and enterprises, but this form can also be used in regions, departments, and enterprises where productive forces are relatively underdeveloped. Moreover, under the same level of productive forces, some enterprises may implement the contract system while others may implement the shareholding system. Thus, the relations between the forms of realization and the level of productive forces are not absolute. The most important thing is that whichever form of realization we adopt, it must be conducive to the development of productive forces. Promoting the development of productive forces is the starting point and end result of our design and determination of the forms of realization of public ownership.

4. The forms of realization of socialist public ownership must be suited to our national situation. What is our national situation? This can be summed up from four angles. In my opinion, a major characteristic of our national situation is that conditions between regions, departments, and enterprises are complicated and show vast differences. For example, seen from the conditions in enterprises, there are obvious disparities. First, differences in scale. Some enterprises have hundreds of thousands of employees and fixed assets worth billions of yuan, while others have less than 100 employees and fixed assets worth less than 1 million yuan. Second, differences in the organic composition of funds. Some enterprises have advanced technologies, excellent equipment, and a high organic composition of funds. They are capital- or technology-intensive. Others have a low organic composition of funds and are labor-intensive. Third, differences in position and role in the national economy. Some enterprises produce products that are vital to the national economy and the people's livelihood; they are the economic lifelines of the country. Some enterprises do not control the economic lifelines of the country. Fourth, differences in market spheres. Some enterprises are domestically-oriented while others are export-oriented. Fifth, differences in the geographical location and external conditions of enterprises. Enterprises in special economic zones and open coastal cities are subject to regulation by market forces to a greater

extent. There, people have a greater market consciousness and market information is more timely and accurate. Enterprises in central and eastern China are vastly different from those in the coastal regions. Due to vast disparities between enterprises, the forms of realization of public ownership should be diversified. It is thus an objective need to adopt different forms of realization in the light of the conditions of different enterprises. Among the diverse forms of realization, each period has its own principal form. As the productive forces develop, this principal form will be replaced by another principal form.

5. The forms of realization of socialist public ownership should be beneficial to the participation of enterprises in international economic activities and to their engaging in competition in the international economy. China has seen rapid development in its foreign trade since implementation of the reform and open policy. Today, the volume of imports and exports account for 30 percent of the GNP. Many enterprises, particularly those in the coastal areas, have close economic ties with their overseas counterparts. Thus, the forms of realization of public ownership must be suited to the needs of this outwardly looking economy.

II. Contract System—Current Principal Form of Realization of Public Ownership

At present, the contract system is the principal form of realization of public ownership in our country. The Central Committee has already decided that the contract system will continue to be practiced during the Eighth Five-Year Plan and that further improvement is needed.

How should we look at the contract system? There are two diametrically opposed views on this question. Some people see the contract system as useless, while others think that it is omnipotent. There are also two distinctly different views on the future of the contract system. Some people see it as a contingency measure, thinking that its days are numbered, others hail it as best suited to China's national situation. There has always been heated debate in theoretical circles and vocational departments on this issue. As I see it, the contract system is neither useless nor omnipotent, its days are not numbered but neither will it last forever. The contract system owes its birth to given historical conditions. Otherwise, it would not have been implemented in 80 to 90 percent of enterprises within the short span of a few years. However, it is true that the contract system itself has fundamental drawbacks which cannot be eliminated through self-improvement. Thus, the contract system is not our ideal form of enterprise.

The contract system has positive roles, manifested mainly in the following five respects: First, the contract system can ensure stable revenue for the state. Second, it is beneficial in bringing the enthusiasm and initiative of enterprises into play because, after signing the relevant contracts, enterprises are relatively free to make their own decisions provided that the contract terms are

fulfilled. Third, the contract system provides the cadres and employees of enterprises with incentive and encouragement. By stipulating that they can retain above-quota earnings but have to make up for losses sustained, this system impels cadres and employees into taking a real interest in the operational and economic performance of their enterprises. Fourth, the contract system can accelerate internal reform in enterprises because, in order to attain the contract targets, it is necessary to increase efficiency by achieving better coordination between organs. Fifth, the contract system is easy to implement and operating costs are low. The contract system's positive roles should thus be fully affirmed. However, we should be aware that many of the irregularities and malpractices in the first round of contracting should be gradually eliminated in the second round of contracting. The thing is that many of the fundamental drawbacks of the contract system cannot be resolved through standardization and improvement. The following five major drawbacks exist.

1. The contract system cannot resolve the problem of the lack of distinction between government and enterprise functions. In theory, the contract system seeks to resolve this problem but, in reality, it is very difficult to achieve. Why? For one thing, in lumping profits and taxes together on the question of economic returns, the contract system in fact confuses the two functions of the government. Taxation and profits are two different sources of income for the government. Taxes are levies imposed on enterprises by the government as the manager of society, while profits are the economic returns reaped by the government as the owner of state property. They represent income of a different nature. The government plays a dual role. On the one hand, it is the manager of society; on the other, it is the owner of state assets. As the manager of society, it is above enterprises; as the owner of state assets, its relationship with enterprises is one between the owner and the operator, that is, a commodity relationship based on equality. In lumping profits and taxes together, the contract system has in fact confused the two functions of government. From the economic perspective, this has strengthened rather than weakened the situation whereby no distinction is made between government and enterprise functions. Next, the base figures in contracts are of decisive importance to enterprises. If the base figures are low, profit retention by enterprises will be high; and if the base figures are high, profit retention will be low. In order to retain more, enterprises will strive to force down the base figures. However, since the base figures are usually fixed by the government, enterprises will become more dependent on the government in the hope that it will show them special consideration when fixing these base figures. Moreover, enterprises need the necessary guarantees in order to implement their contracts and such guarantees, such as foreign exchange quotas and the planned supply of raw and semifinished materials, come mostly from the government. They will have difficulty fulfilling their contracted tasks without special consideration from the government. Thus, as long as the contract system is

implemented, the problem of the lack of distinction between government and enterprise functions will remain.

2. The contract system cannot resolve the problem of assuming responsibility for profits but not for losses. Contracts all have fixed base figures and clauses guaranteeing amounts to be turned over to the state, retention of above-quota profits, and self-indemnity for losses. Enterprises are entirely able to assume responsibility for profits, as all this involves is the retention of above-quota profits. However, enterprises are unlikely to be able to make up their own losses. According to existing regulations, unprofitable enterprises must tap their own pool of funds in order to turn over the prescribed amounts to the state. Self-indemnity of losses thus means that enterprises have to use their own capital, which ultimately belongs to the state, to make up for their current losses. This is not only theoretically untenable but in practice it is not very feasible because some enterprises have more owned capital than others and some do not have any owned capital at all. Besides, the deficits vary between enterprises. What if enterprises cannot make up for their deficits with their owned capital? If so, it means that they cannot assume responsibility for losses.

3. The contract system cannot overcome short-term activities on the part of enterprises. There are two types of contracting by enterprises. The first is hard contracting, involving the fixing of base figures and guarantees for amounts to be turned over. The second type refers to soft contracting, which involves technological advances and the appreciation of fixed assets. If the economic returns of an enterprise are good, it may be able to fulfill both tasks. If an enterprise is in economic difficulties, it must first guarantee the fulfillment of hard tasks, relegating all other tasks to a secondary position. People tend to accuse enterprises of engaging in short-term activities. In my opinion, the short-term activities of enterprises are often prompted by short-term activities on the part of policy makers. At present, the contract term for most enterprises is two to three years and the maximum term is 15 years. Many enterprises overwork their equipment, pillage resources, overlook safety in production, and neglect technological advances in their endeavors to meet the quotas for amounts to be turned over. Short-term activities like these are unavoidable and cannot be overcome under contracting.

4. The contract system cannot stand changes in external conditions. As we all know, contracts remain unchanged for several years once they are signed. After signing their contracts, enterprises will want to see relative stability in external conditions. By external conditions, we refer mainly to prices, tax rates, exchange rates, interest rates, transportation, supply of raw and semifinished materials, and so on. When changes occur in external conditions, the economic returns of enterprises are likely to be affected and some will be unable to fulfill their contracted targets. In recent years, we have been talking about the need for enterprises to digest the price-rise

factor. This sounds reasonable. The truth is, it is not only unreasonable but cannot be done in most cases. If enterprises can digest the price-rise factor, then the base figures must be unrealistically low. If the base figures are realistic, enterprises will have difficulty digesting the price-rise factor. It is either one or the other.

5. The contract system cannot bring about the rational flow of production factors. As we all know, the contract system involves the contracting of individual enterprises from the authorities concerned. As the base figures, venues for turning over funds, and administrative relations will remain unchanged throughout the contract period, it is very difficult for production factors to move around.

It is precisely because the contract system has the above-mentioned fundamental drawbacks that we do not regard it as an ideal form of realization of public ownership. However, within a given period and under given historical conditions, it is still a principal form of realization. On this question, we must see the system from all perspectives and not see it only in terms of absolutes.

III. From Contract System to Shareholding System

On the forms of realization of public ownership, my basic concept is to gradually make the transition from taking the contract system as the main form to taking the shareholding system as the main form. Here, two points need to be stressed. One is "gradual" and the other is "main form." That is to say, we can practice the shareholding system while taking the contract system as the main form and practice the contract system while taking the shareholding system as the main form. The two are not absolutely exclusive, as both the contract system and the shareholding system involve a process of development. Although the shareholding system is a typical form of enterprise under the commodity economy and socialized mass production, it must be tried out step by step and cannot be universally implemented all at once.

First, the joint-stock economy is the product of the socialization and commercialization of production. The shareholding system has emerged under the capitalist system but it is not the exclusive right of capitalism. Rather, it is the product of the socialization and commercialization of production. It may exist under the capitalist system but it can also exist under the socialist system and serve socialism.

The socialization and commercialization of production require that we overcome the limitations of the possession of capital by individuals and turn individual capital into social capital. Following the socialization and commercialization of production, there is the objective need to enlarge the scale of production and build large enterprises and projects which require huge investments. This is an inevitable requirement of the development of productive forces and also a prerequisite for their development. Under capitalist private ownership, private capitalists have difficulty financing huge investment projects. Thus, the joint-stock economy, as the simplest

and most effective form of financing, emerges as the times require. As Marx pointed out: "The minimum capital needed by an independent industrial enterprise to carry out effective production will increase as the level of productive forces rises. In times of competition, this means that small capital will be excluded from production in order that new and more expensive production equipment can be universally put into use. It is only in the early stage of the invention of machinery that small capital can exercise its functions independently in the production sector." He also pointed out that: "If we had to depend on accumulation to increase independent capital to the extent whereby it could finance railroad construction, we probably would not have any railroads in the world today. But the task can be accomplished in no time through shareholding companies." (Footnote 1) (*Collected Works of Marx and Engels*, Vol 25, pp 292-293) It is true that in a socialist society where public ownership of the means of production constitutes the main form of ownership, the drawback of the limited scale of private capital can be overcome. However, under conditions of the commodity economy, the problem still exists of the decentralized ownership of capital by different regions, departments, groups, enterprises, and individuals. The contradiction between the decentralized ownership of capital and centralized needs in socialist construction calls for solution through the shareholding system. Compared with other forms of financing, the shareholding system is special in that it ensures long-term funding and shared risks.

The socialization and commercialization of production call for the socialization of production factors and production funds. The shareholding system frees capital from control by individuals and gives capital its social form. It is "the rejection of the capitalist mode of production within the scope of the capitalist mode of production." (Footnote 2) (*Collected Works of Marx and Engels*, Vol 25, p 459) Socialism does not have the basic contradictions inherent in capitalism. However, under the old economic structure and enterprise mode the means of production are actually split between different regions and departments and different forms of public ownership. The direct mode of management with mandatory plans playing a major role cannot effectively coordinate the relations between different regions and departments, and between different forms of public ownership, because it goes against the objective laws of the commodity economy. It gives rise to the problem of the separation of socialization and the public sector (regions) affects the optimum organization and rational utilization of production factors; results in serious waste of funds, manpower, technologies, equipment, and resources, and hampers the development of productive forces. The shareholding system can break down the boundaries between ownership systems, regions, trades, and administrative jurisdiction, fully utilize production factors in accordance with the requirements of socialized mass production, bring about the optimum organization of production factors, and increase economic efficiency in society.

The socialization and commercialization of production require specialization in management. Activities of the modern commodity economy and socialized mass production constitute a complicated systems engineering project, the management of which requires specialized knowledge, experience, and ability. Under the capitalist system, private capitalists with capital in their hands do not necessarily have specialized management ability, while managerial personnel with specialized knowledge and ability do not necessarily have sufficient capital to start an enterprise. The shareholding system, which has as its unique feature the separation of ownership and management, turns owners of capital into simply owners and turns managerial personnel, who have specialized knowledge and ability and who actually exercise the functions of capital, into "managers of other people's capital." It can improve the management quality of enterprises and is suited to the objective needs of complicated socialized mass production and the commodity economy. Although the socialist enterprise system with public ownership of the means of production as the main ownership form, particularly the system of large and medium state enterprises, does not suffer the same limitations as the management in enterprises by private capital, it has to work against the serious drawbacks of poor efficiency and returns due to the lack of distinction between government and enterprise functions and between ownership and management power. The practice of the shareholding system is an important means for restructuring the microeconomic management mechanisms of enterprises and truly bringing about the separation of government and enterprise functions and of ownership and management power. Under the shareholding system, equities are clearly defined, and the share rights of the state and the other shareholders are equal. The dual roles of the state as the social manager and the owner of enterprise equities are given independent manifestation. The enterprise is no longer directly subject to the control and management of the state administration. The factory director (manager) as the representative of the corporate body of the enterprise has full management autonomy. This creates the necessary conditions for enterprises to manage their own affairs, assume responsibility for their own profits and losses, and control their own actions.

The socialization and commercialization of production require the free flow and optimum organization of production factors. Under conditions of the socialization and commercialization of production, there are objective needs to ensure the rational flow of production factors in society in order to achieve optimum organization. They are necessitated by the uneven development of science and technology, labor productivity, and economy in different sectors, the frequent changes in supply and demand in the market, and the fact that enterprises have divergent management qualities and prospects in market competition. The joint-stock economy is the simplest form for bringing about the rational flow of production factors. Under the capitalist system, supply and demand in the stock market, and

fluctuations in share prices, spontaneously regulate the proportions of production factors in different sectors and enterprises like invisible hands, thereby greatly improving the performance of the economy. Under the socialist system, we should practice the shareholding system and establish a perfect market for securities transactions. Through equity transfers, share acquisitions, and fluctuations in share prices, we can bring about the free flow of production factors in society and promote rationalization of the product mix, industrial structure, and enterprise organizational structure.

The emergence and development of the shareholding system are closely related to the credit system. Marx said: "The credit system is the primary foundation upon which capitalist private enterprises gradually transform into capitalist shareholding companies." (Footnote 3) (*Collected Works of Marx and Engels*, Vol 25, p 498) Applying the principle of the separation of property ownership and right of use (management power) in the credit system, and drawing on some of the credit system's fundraising and financing methods, it has formed a special form of property organization and enterprise management mode. The credit system is a product of highly-developed commodity money. The universal practice of the socialist credit system provides favorable conditions for the development of the joint-stock economy.

Some members of academic circles confuse the joint-stock economy with the capitalist economy, thinking that the development of the shareholding system means the development of capitalism and that practicing the shareholding system will lead to capitalist privatization. This is a groundless argument. Although Marx did not envisage the presence of a joint-stock economy under socialism, he did repeatedly emphasize in his analysis of the capitalist joint-stock economy that the joint-stock economy was the "rejection of capitalist private property," and a "simple point of transition to a new mode of production." If we subscribe to the view that under the capitalist system, the more the joint-stock economy expands and "intrudes into new sectors of production, the more it will wipe out private property," we have no grounds for worrying that the joint-stock economy will lead to the development of capitalist private ownership under the socialist system. The truth is, since the joint-stock economy is suited to the development of productive forces and has promoted the further development of productive forces, it is essentially beneficial to the consolidation and development of public ownership.

Second, the experimentation and problems of the shareholding system. In recent years, the shareholding economy has seen rapid progress in our country. However, due to the lack of theoretical and policy preparations, many problems have cropped up which need to be gradually resolved in the future course of development. The following are some of the major problems:

1. Equities are not clearly defined and there is no unified standard for the classification of assets. At present, most

shareholding enterprises have state-owned shares, constituting assets formerly under state ownership in state enterprises, corporate shares, constituting shares acquired by corporate entities in society, and personal shares, constituting shares acquired by individuals working in the enterprise concerned or by members of the public. Some enterprises also have collective shares owned by all staff members and workers. On the whole, the first three types of shares have more clearly defined equities. Shares collectively owned by staff members and workers are formed by profits retained by enterprises since reform. A clear line of demarcation is absent between these equities and those under state ownership and equity boundaries are very obscure. Due to the lack of a unified standard in asset valuation, over-valuation and under-valuation are common. This is particularly true with intangible assets, such as inventions, patents, franchised technologies, trademarks, good will, and other industrial and intellectual property rights, which are very difficult to evaluate. Due to the lack of evaluation by market forces, valuation of these kinds of assets is often subjective and arbitrary.

2. The risk mechanism of the joint-stock economy has not been given full manifestation. An important feature of the joint-stock economy is its unique risk mechanism. In a shareholding enterprise, the risk borne by each shareholder is limited to the capital he invests and is thus finite. The risk is also mobile in nature because shares are negotiable. Also, the risk run by the enterprise as a whole is dispersed because it is borne by all investors. The current situation in our country is that while the state is the largest shareholder, no one is actually responsible for the state assets. Since no one is there to bear the risks and shoulder the responsibility, the dispersed and finite nature of risk has not been given its full manifestation. Due to the lack of a perfect stock market, shares cannot truly circulate. Thus, the mobile nature of risk also has not been given manifestation. The fact is, individuals buy shares not so much for risk returns as for insurance against inflation or for increase in value. In other words, people are only willing to buy shares when they are assured of profits. At present, many enterprises are issuing shares, particularly shares for exclusive subscription by their own staff members and workers. Some of these shares offer fixed dividends, others offer dividends plus bonus, still others offer a 20 percent annual dividend rate, well in excess of the annual interest rate. These shares are, in fact, bonds in disguise.

3. Stock markets have not developed to maturity. Although stock markets have emerged in Shanghai, Shenzhen, and other places, they are not common in the whole country. The stock markets already established are also far from perfect. Shares only account for a small proportion of stock market transactions. Due to the lack of perfect stock markets, shares cannot circulate and the value form of production factors cannot circulate laterally through the stock market. Hence, the function of the joint-stock economy in stimulating the flow of production factors is greatly weakened.

4. The management of shareholding enterprises is poor. At present, many shareholding enterprises are still using their original form of management. Although a board of directors has been set up, the members of the board are appointed by departmental authorities. The post of director is sometimes concurrently held by the person in charge of the department and sometimes the board of directors is treated as a venue for the placement of cadres. There is no unified standard regarding the qualifications and requirements for positions on the board and there is no organ to examine their appointment. The duties and responsibilities of the director of the board and the manager of the enterprise are not clearly defined.

5. The state macroeconomic management measures are not well coordinated. In accordance with the requirements of the joint-stock economy, it is necessary to differentiate between the functions of the government as the owner of state assets and its functions as social and economic managers. On the question of distribution, it is necessary to put an end to the situation whereby taxes and profits are lumped together and practice separate taxes and profits. Our original tax system was designed according to the nature of ownership. In the joint-stock economy, however, the diversification of operations renders the original tax system unsuitable. As the social and economic manager, the government must provide the necessary conditions for the development of the joint-stock economy by drawing up a company law, stock market law, and so on. Because these are not yet extant, the joint-stock economy can only develop in a disorderly way, thus creating confusion.

Third, enlarge experimentation in the shareholding system and establish and perfect the shareholding structure. During the Eighth Five-Year Plan the shareholding system will be in its experimental stage. Specifically, experimentation means that we are to appropriately develop enterprises with corporate bodies acquiring partial or controlling shares, carry out consolidation in enterprises where shares are issued to their staff members and workers, and restrict the public issuance of shares to Shanghai, Shenzhen, and a few other cities. In my opinion, we can enlarge experimentation in the shareholding system. To do so, efforts must be made to handle the following questions well:

1. It is necessary to establish and perfect the legislation and regulations for the joint-stock economy. We now have the Enterprise Law and Enterprise Bankruptcy Law but we do not have a shareholding company law or stock market law. Share buyers are not legally protected.

2. It is necessary to change our concepts. If we firmly maintain that shareholding companies are capitalist in nature and are the exclusive rights of capitalism, we are bound to be consumed by difficulties in developing the shareholding system. On the question of whether it serves investment or speculation, we are in favor of promoting investment consciousness and against speculation. However, it is very difficult to separate the two in actual practice. We all claim that we buy shares as an

investment but our true aim is to obtain more income. Subjectively, the speculative intention is there but, objectively, it functions as an investment. Will public listing of shares turn state assets into private assets? I do not think it will. There are three ways in which state assets and state enterprises are publicly listed in the stock market. First, the state retains 51 percent of the share rights. The enterprise is controlled by the state and the state also has control over assets in other economic sectors. The practice of the shareholding system will not privatize state assets but will provide a means for the consolidation and development of public ownership. This practice, whereby the state can control large quantities of nonstate assets through a given quantity of state assets, is very beneficial to the consolidation and development of public ownership. Second, regarding major enterprises with a vital bearing on the national economy and the people's livelihood, the state can stipulate that their shares cannot be publicly listed and are only for internal subscription. Not all enterprises have to go public when issuing shares. Third, in some enterprises, shares are mostly bought by individuals and not by corporate bodies or the state. Although the material form of state assets is changed, their value has not diminished. The state recovers its original capital by selling shares and reinvests the money in other enterprises. This is conducive to improving the investment structure of the state and can ensure the development of key state projects.

3. It is necessary to formulate support measures. The establishment of the shareholding system needs many support measures, such as the solicitor system, accountant system, broker system, and media supervision system.

In short, the shareholding system will be the main form of realization of socialist public ownership in the future. Although we are not very familiar with this and do not have much experience, the development of the shareholding system itself has greatly enhanced people's investment consciousness, risk consciousness, commodity economy consciousness, as well as market consciousness.

QIUSHI on Breaking 'Three Irons'

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[Article by Li Yangzhen (2621 0111 3791), secretary of Xuzhou City CPC Committee, Jiangsu Province. "To Transform Enterprise Internal Mechanisms, It Is Necessary To Break 'Three Irons'"]

[Text] Since the second half of last year, Xuzhou City has been attempting to intensify reform and transform the operational mechanisms in some industrial enterprises with the stress on the removal of the "iron armchair [lifelong tenure]" and the elimination of the practices of "ironclad wages" and the "iron rice bowl." We succeeded in putting an end to the passive state of affairs

where enterprises were suffering from increased losses, and promoted the development of industrial production. Practice shows that good internal mechanisms are the source of enterprise vitality. In order to successfully run enterprises and bring about a benign cycle of production, the only way out lies in deepening the reform and transforming the internal mechanisms of enterprises as quickly as possible.

I.

In recent years, Xuzhou has been trying without success to tackle the problems of declining economic returns and increasing deficits in its industrial enterprises. The situation has been worsening since early last year. Realized profits of 70 county-level industrial enterprises in the city were 2.11 million yuan in January 1990. Last January losses amounting to 9.55 million yuan were reported, and losses sustained by unprofitable enterprises increased by 51.8 percent. At the end of May, county-level industrial enterprises reported a 114.3 percent increase, or a further 10.92 million yuan, in losses. There were 201 unprofitable enterprises, and the scale of losses expanded to 43 percent. Finished-product funds amounted to 1.095 billion yuan, with nearly 45 percent of the circulating fund quota being taken up by goods in stock.

Through investigation, we have discovered that although enterprises may sustain losses due to a variety of reasons, such as homogeneity and aging of products, obsolescence, lack of complete sets of equipment, lax management, poor quality control and high material consumption, a more important and deep-rooted reason is that the enterprise internal mechanisms are not rational. Most important of all, because the "iron armchair" has not been removed and the practices of "ironclad wages," "iron ricebowl" and "everybody eating from the same big pot" have not been done away with, workers and staff members are given the same salaries regardless of the quantity and quality of work rendered. When an enterprise sustains losses, neither the operators nor the producers are held responsible. They feel neither pressure nor anxiety for the performance of their enterprise. Enterprises do not have a strong sense of market, competition or risks, and lack the drive and push for self-development, self-accumulation and self-control. In times of difficulties, some of them wait for the government to offer additional loans, tax abatements or increased profit retention when they should be mobilizing the workers and staff members to overcome difficulties by all and every means. Many enterprises are guilty of "short-term actions." They do not attach any importance to accumulation when they are making money, and continue to issue bonuses and offer wage increases, even resorting to fraud and falsification of accounts, thereby draining their available resources.

The practices of "everybody eating from the same big pot," the "iron ricebowl" and the "iron armchair" have objectively become the major obstacles affecting the enthusiasm of the workers and staff members and

restricting the development of social productive forces. Unless this problem is resolved, other reform measures cannot produce the desired results, and favorable enterprise internal mechanisms cannot be established. Thus, it is imperative that we transform the enterprise mechanisms, break the "three irons," and establish and improve a cadre system, labor and employment system and wage system that are suited to the development of socialist commodity production.

Actually, people have long been aware of the danger of the practices of "everybody eating from the same big pot," the "iron rice bowl" and the "iron armchair." Why did they not make up their minds to resolve this problem? In this connection, there are two questions of understanding and some practical problems that need to be straightened out. The first is the understanding of the relationship between the practice of "everybody eating from the same big pot" and the superiority of socialism.

Some comrades entertain the mistaken idea that the practice of "everybody eating from the same big pot" is an expression of the superiority of socialism. The fact is, the practice of "everybody of eating from the same big pot" is incompatible with the socialist principle of distribution. "To each according to his work" is the socialist principle for the distribution of personal consumer goods. In the primary stage of socialism, old divisions of labor in society have not yet disappeared and the three major distinctions (between town and country, industry and agriculture, and physical and mental labor) still exist. There are still obvious differences between labor furnished by different laborers to society, and labor has not yet become the primary need in people's life. Thus, it is necessary to "tacitly recognize unequal individual endowment" and tie the amount of labor one renders to society and the enterprise to the remuneration one receives, using labor as the standard measurement in the distribution of personal consumer goods. Only in this way can we arouse the enthusiasm of the masses and promote the development of productive forces. The principle of "to each according to his work" is the negation of the system of exploitation, and embodies socialist equality. If, instead of taking the contributions made by laborers into account, we set the same salaries regardless of the quantity or quality of work performed, and adhere to the egalitarian practice of "everybody eating from the same big pot," then those who do a poor job and make little contribution will be able to benefit at the expense of those who do a good job and make a big contribution. This will deal blows to the advanced, encourage the sluggard, result in lax discipline and hamper the development of productive forces, thereby adversely affecting the manifestation of the superiority of socialism. The second is the understanding of the relationship between reform and stability. The transformation of enterprise mechanisms will unavoidably touch on the cadre system, labor and employment system and income distribution system currently in force in enterprises. Some comrades worry that this will affect social stability. That enterprise reform has been going on

in a jolting manner and has been unable to develop in great depth has a lot to do with this worry. The fact is, thriving business and the development of social productive forces are the conditions for social stability. If we do not break the "three irons" and transform enterprise mechanisms, it will not be possible to boost the returns of enterprises. This will affect workers' income and social stability. It is only by breaking the "three irons," increasing the vitality and drive of enterprises, and promoting the quicker development of productive forces and the gradual improvement of the people's livelihood through reform that society can enjoy greater stability. Seen from another angle, the preservation of "three irons" may bring "peace and quiet," but then it also carries factors of instability. Most cadres and workers have long resented the unreasonable situation where cadres can continue to be officials regardless of their ability and performance, and where workers are paid the same salaries and bonuses irrespective of their technical level and contributions. Some workers said: "We spent money to buy some peace and quiet, but the more we spent, the less peace and quiet we enjoy." Unless reform is carried out as soon as possible, contradictions will build up to a point where they will explode. Breaking the "three irons" and overcoming the drawbacks in personnel, labor and distribution matters is conducive to social stability as it will give the overwhelming majority of cadres and workers peace of mind and help increase their zeal for labor. Provided that cadres set an example and take the lead in breaking the "three irons," wholeheartedly rely on the working class, state the reasons clearly and do their work meticulously, the workers will understand and support their work. This was what actually happened. In the first half of 1991, 28 enterprises in the city were forced to suspend operation completely or partially and 12,000 workers were left with nothing to do. A small number of workers petitioned the city party committee and government and demanded resumption of work and pay. Their petition affected government work and social stability. Several months after measures were taken to break the "three irons," no further petitions were made to the city party committee and government. This shows that it is both necessary and possible to further emancipate our minds, broaden our field of vision, adopt more flexible measures and make greater strides on the question of deepening enterprise reform and transforming enterprise mechanisms.

II.

Having clearly understood the necessity of breaking the "three irons" and the importance of invigorating enterprises, we were able to strengthen our resolve and faith in transforming enterprise mechanisms. In the second half of last year, we started to break the "three irons" in unprofitable enterprises.

Deepen the reform of the personnel system in enterprises by removing "iron armchairs," and promote cadres on the basis of their performance. Whether or not an enterprise has a good leadership body, particularly a good director, is the factor deciding whether it will enjoy thriving

business. The criteria for the employment of enterprise cadres should be moral and political integrity, the ability to implement the party's line, principles and policies and to unite with and rely on the masses, breadth of vision, as well as knowledge of managerial skills. Enterprise cadres may be transferred to a higher or a lower post as required. Those who are capable and are trusted by the masses should be given support, while those who are not should step down and be transferred to other posts. However, the problem of "once in office, always in office" in the cadre system has remained unsolved all these years. In some enterprises, there is the abnormal situation where "cadres keep coming and going while deficits keep rising." Some enterprises in our city have seen seven or eight replacements in their directorship in the past few years while their losses keep mounting. The ex-directors were allowed to be officials elsewhere. Some enterprises sustained heavy losses while their directors spent money extravagantly. Thus, in order to break the "three irons," it is necessary first of all to remove the "iron armchairs." Unless this is done, it will not be possible to ensure the quality of the cadre ranks, increase the sense of responsibility on the part of cadres, and provide a reliable organizational guarantee for the development of production and deepening of reform in enterprises. We resolved to "operate" on this longstanding problem. First, a personnel freeze was imposed in unprofitable enterprises. The principal persons in charge of enterprises running at a loss due to poor operation were not eligible for transfers before losses were eliminated. When an enterprise was sustaining losses, its director could not be given work of a similar position at the same level. This practice left the cadres of unprofitable enterprises with no way of escape and forced them to work shoulder to shoulder with the workers and staff members in trying to make up deficits and increase profits. Second, directors who did not do their best to eliminate losses were dismissed or demoted. In recent months, 36 directors or deputy directors of city- and county-level industrial enterprises have been dismissed or demoted with wage cuts. Third, cadre employment was adopted. All deputy executive posts at the factory level in the City Chemical and Pharmaceutical Company were employed on the nomination of the respective factory directors and approved by the company. The employment system was also adopted by the City Textile Bureau for factory-level cadres (directors, deputy directors and "three chiefs") in some of its enterprises. The economic return indices or loss reduction or elimination targets were listed as the main terms of employment and checked from time to time. Those who failed to reach the targets were held responsible or even dismissed. At the same time, the employment system was also commonly practiced among the mid-ranking cadres of unprofitable enterprises, and outstanding personnel were boldly promoted to run the enterprises. Enterprises running at a loss due to poor management must, while upholding the principle of employing people with both moral and political integrity, break down all barriers between trades

and ownership systems, and promote to leading positions people who are politically and ideologically tough, who know business and are good at management.

Deepen the reform of the distribution system in enterprises by breaking "ironclad wages," and fix income on the basis of earnings. The existence of "ironclad wages" in enterprises has seriously violated the principle of "to each according to work," stifled the enthusiasm of cadres and workers, and affected the development of productive forces. Thus, breaking the practice of "ironclad wages," strictly adhering to the principle of "to each according to his work," and tying workers' income to the working attitude, technical level and work contributions of individuals have a significant role to play in transforming enterprise mechanisms and effectively invigorating enterprises. In the light of actual conditions in enterprises, we adopted a diversified method of distribution. This mainly involved the fixing of basic wages (as evidence for outward transfers and wage level upon retirement) and the practice of diversified wage forms, such as full piece rate, above-quota piece rate, remuneration paid on the basis of profits, and a 100-mark assessment and promotion system. At present, 253 enterprises in Xuzhou City have adopted this method of distribution. In so doing they have effectively solved the problem of making no distinction between those who do a good job or a poor one and between those who do more work or less. The Xuzhou Hosiery Plant adopted the "full piece rate system with remuneration paid on the basis of capital and quality" in respect of its first-line workers and staff members, and succeeded in arousing the enthusiasm of first-line personnel in production and increasing labor productivity. In the past, it needed four persons to attend to one loom, but now one person can attend to three or four looms. Many workers and staff members found their monthly income going up from about 100 yuan in the past to over 200 yuan. The plant also eliminated losses and increased profits within a short time. The Xuzhou Rubber Plant implemented a technical post wage system which gave preferential treatment to those working on the first-line of production, at key technical posts, or in types of work considered difficult, filthy, tiring or dangerous. This practice attracted some workers working on the second or third lines of production but who had skills and ability to join the first line of production, and aroused the enthusiasm of the first-line workers. Many enterprises also adopted an overall contract system where sales personnel could determine the wage cost in their sales volume. This aroused the enthusiasm of the sales personnel, and helped enterprises to substantially increase their sales volume while reducing selling expenses. In order to increase the responsibility of cadres, staff members, and workers for losses, we also adopted a system for the downward floating of wages in unprofitable enterprises. It was stipulated that in enterprises running at a loss for three months in a row, the factory-level leading cadres would have their wages reduced by one grade, in enterprises running at a loss for six months in a row, all cadres, staff members and workers would have their

wages reduced by one grade, and would only be paid their original wages after aggregate losses had been made good, and the staff members and workers of enterprises which had suspended operation would only be issued living expenses equivalent to 60 percent of their original wages. Up to the present, the leading cadres of 21 enterprises that had been running at a loss for three months in a row have had their wages float downward by one grade, and all cadres, staff members and workers of 23 enterprises that had been running at a loss for six months in a row have had their wages float downward by one grade or have only been issued 60 percent of their wages.

Deepen reform of the labor and employment system in enterprises by breaking the "iron ricebowl," and fix posts according to the skills and efficiency of individuals. Enterprises are for the purpose of production, and as such should employ as many staff members and workers as necessary. There should be fixed positions and quotas for workers and staff members. The choice should be mutual and job-hopping should be permitted. The "iron ricebowl" is not in keeping with the needs of modern socialist mass production. It not only affects the enthusiasm of the masses but hampers efforts to increase labor productivity. At present, our enterprises are overstaffed, but we are unable to return the surplus personnel to society. However, neither can we continue the practice of the "iron ricebowl." We first of all introduced the competition mechanism into enterprises by letting enterprises rationally determine staff quotas on the first line of production or at key posts in the light of actual needs, and by basing employment on assessment. On this basis, we conducted regular or follow-up on-the-job assessment, and those who were found to be unsuitable were promptly replaced in an effort to achieve dynamic optimum organization. We also established a system of intra-plant unemployment and off-the-job training. Rather than returning the surplus personnel to society, the methods of intra-plant unemployment and off-the-job training were adopted. The idea was to raise their technical level before assigning them to new posts. Staff members and workers who were physically too weak and were not equal to their tasks were asked to take pensions, with formalities to be completed when they reached the stated retirement age. Enterprises were also encouraged to concentrate on one trade while developing diversified undertakings to accommodate their surplus personnel.

Thanks to the above-mentioned reform measures, we were able to effectively put a brake on runaway losses in enterprises, and succeeded in spurring on and promoting an improvement in industrial economic returns. At the end of last year, proceeds of sales in local industrial enterprises were 14 percent up on 1990, with realized profits increasing by 77 percent and realized profits and taxes going up by 25 percent. Funds taken up by finished products showed a drop of 240 million yuan compared with the first half of the year. The scale of losses dropped from 43 percent to 22 percent, with losses down by 30 percent compared with 1990. Five trades managed to

eliminate losses across the board. Industrial enterprises in the whole city seem to have been resurrected from a deep slump and are showing new vitality and good development momentum.

III.

In breaking the "three irons" and transforming enterprise internal mechanisms, it is necessary to do away with old concepts and conventions. As they involve the interests of cadres, staff members and workers and the readjustment of relations between various quarters, they are bound to encounter obstacles and contradictions. This calls for bold attempts as well as attention to detail. Unless meticulous ideological work is carried out and careful organizational leadership is exercised, the smooth progress of reform cannot be guaranteed. In this connection, we have paid attention to the following:

1. Proceed from reality and seize the right breakthrough points to transform enterprise mechanisms. In recent years, we had conducted many experiments on the transformation of enterprise mechanisms in large and medium-sized state enterprises with good returns and foundations, but these efforts produced very little effect. On the basis of summing up experience and lessons, we broadened our train of thought, based ourselves on actual conditions in the locality, and chose the unprofitable enterprises, particularly medium-sized and small ones, as breakthrough points. Since the cadres, staff members and workers have a better idea of the harm of the "three irons," they have a more pressing demand for reform and are mentally more tolerant. Resistance in thinking and in work is thus smaller. For this reason, it is more feasible to conduct experiments in increasing the intensity of reform and transforming enterprise mechanisms in these enterprises. On the other hand, since it is possible to eliminate losses and put a brake on production decline more quickly by taking the unprofitable enterprises as breakthrough points, people can deepen their understanding of the importance and necessity of the transformation of enterprise mechanisms by looking at the actual effects. Practice proves that we have made the right choice, and good results have been achieved. This is an important first step because it touches upon the core issue of the enterprise system, which has remained unresolved for many years. The key to running enterprises well lies in having the necessary personnel, truly arousing their enthusiasm, and seeing to it that enterprises have the internal vitality, drive and pressure for development. Breaking the "three irons" will create crucial conditions for achieving this goal. Of course this alone is not enough. The aim of our reform of socialist enterprises is to turn enterprises into commodity producers and operators with autonomy in management, responsibility for their own profits and losses, and the ability to develop and control themselves. At present, most enterprises lack the ability and drive to develop and build up their accumulation, do not have the internal urge to control themselves, and are a long way from being able to assume sole responsibility for their own profits and losses. We still need to work hard on

these reforms. Meanwhile, in an effort to gradually deepen the reform, the transformation of enterprise mechanisms needs to be extended from unprofitable enterprises to those with good returns, from medium-sized and small enterprises to large- and medium-sized state enterprises, and from industrial enterprises to non-industrial ones.

2. Persist in doing solid work, and dare to touch upon tough issues. As the transformation of enterprise mechanisms is a profound change, difficulties and obstacles are unavoidable. There is no short cut to success where this task is concerned. It requires that we do solid work on our hands and knees and combine the courage to touch upon tough issues with meticulous work. First, it is necessary to boldly face tough issues and shake the old framework. The force and toughness of the series of measures we adopted in respect of the unprofitable enterprises, such as the "cadre freeze," "downward floating of wages," "dismissal of those not equal to the task in eliminating losses," "intra-plant unemployment" and "widening the differences in distribution," were unprecedented in Xuzhou. In the face of the long-standing problem of the "three irons," it is impossible to do anything without tough measures. Through conscientious investigation and repeated consultation with cadres and masses, and on the premise of achieving the consent of the overwhelming majority of comrades, contracts of responsibility were signed between the city government and the districts and bureaus (companies), and between the districts and bureaus (companies) and the enterprises. All units that failed to reach the target of eliminating losses within the specified time were punished according to relevant stipulations. Some factory directors were dismissed from office, some enterprises were ordered to have their wages float downward, four unprofitable enterprises were stripped of their "advanced city-level enterprise" title and of the upward wage readjustment given to them as part of the title, 10 enterprises which produced substandard products were shown the yellow card as a warning, 20 enterprises with overstocking and poor management were ordered to suspend operation and carry out rectification, and two enterprises with more liabilities than assets were treated as insolvent. This gave the unprofitable enterprises great pressure, forcing them to go all out and "fight with their backs to the water" to stop losses. Notable results were achieved. However, daring to touch upon tough issues does not mean acting blindly and rashly. It means attention to working procedures and methods and the need to carry out meticulous ideological and political work. We started this reform after more than four months of preparation. When formulating the plan for the reform, we solicited opinions widely and repeatedly tested their feasibility before making the final decision. We required enterprise leaders to listen to the suggestions of worker representatives before adopting any reform measure to ensure support from the masses. In the reform of the cadre and employment systems, enterprise leaders conducted heart-to-heart talks with cadres not yet allocated suitable jobs and conducted ideological

work among them. At the same time, arrangements were made to assign them to jobs according to their abilities. Those with special technical skills were transferred to technical posts; while those with other vocational skills were assigned suitable jobs. Staff members and workers screened out after the optimization process were organized to engage in tertiary industries in an effort to expand the channels of production. The small number of staff members and workers who violated factory rules and discipline were first given criticism and education. If education proved futile and they still created trouble, they were severely punished according to relevant rules and regulations. In so doing, we won the understanding and support of the cadres, staff members and workers, and ensured the smooth progress of reform.

3. Actively transform the economic management functions of the government, and create a good external environment for the transformation of enterprise internal mechanisms. In breaking the "three irons" and transforming enterprise internal mechanisms, it is necessary to have the coordination and support of various quarters. Of particular importance is the change in the functions of the government and government departments. If we only ask enterprises to transform their internal mechanisms to keep abreast of the new situation of the planned commodity economy, while government departments continue to run enterprises according to the unitary system of planned economy, the objectives of transforming enterprise mechanisms cannot be realized. Thus, we paid attention to the transformation of government functions and saw to it that they were transformed side by side with enterprise mechanisms. Around the task of transforming their functions, the departments responsible for economic work under the city government strengthened their guidance and service to enterprises, formulated measures and defined areas of responsibility. While persisting in exercising appropriate control in important aspects like the orientation of development, the implementation of industrial policies, the manning of leading bodies, and the execution and monitoring of policies and regulations, they also made a determined effort to decentralize power where necessary. Administrative intervention in the internal affairs of enterprises was minimized so that enterprises could make full use of the rights vested in them by the state to improve their internal mechanisms. This increased the ability of enterprises to survive and compete. In order to ensure the smooth transformation of enterprise mechanisms, government departments also adopted a variety of measures, such as financing, the establishment of a system where government cadres are assigned to factories to give timely assistance, and reducing the burdens of enterprises, to help enterprises eliminate losses, overcome difficulties and provide better service. Last year, over 500 government cadres were assigned to unprofitable enterprises and enterprises which are expected to turn in huge realized profits and taxes. By the end of 1991, more than half of the 23 unprofitable enterprises receiving major help were able to eliminate losses and increase profits. The government canceled 51 projects that were found to

be arbitrarily collecting charges, issuing fines and making apportionments, and confiscated some 8.09 million yuan thus obtained. Efforts were also made to reduce the burden and pressure on enterprises by cutting down the number of meetings and halting all unnecessary inspections and comparisons so enterprises could concentrate on production and internal reform.

Commentator on Assimilation, Reform

HK0406023292 Beijing ZHONGGUO JINGJI TIZHI
GAIGE in Chinese No 4, 23 Apr 92 pp 6-7

[Commentator's article: "Assimilation, Emulation, and Innovation"]

[Text] When people review the tremendous achievements through 13 years' reform and opening, they more clearly realize: Like revolution, reform is to emancipate the productive forces, to fundamentally change the economic structure which impedes the development of the productive forces, and to promote the development of the socialist planned commodity economy.

In order to make explorations and innovations, one should first break into the "forbidden zones" in one's mind and be courageous in answering questions that predecessors did not solve. Since the Third Plenary Session of the 11th CPC Central Committee, this is precisely what we have done. The theory concerning the initial stage of socialism, the productive forces criterion, and especially the presentation and establishment of the theory about the socialist planned commodity economy are all developments of socialist economic theory, and are also powerful ideological weapons for guiding our country's reform practice to success. At present, in order to further reform the planning system according to the principle of combining planned economy with market regulation, we must give better play to the role of the market mechanism. How to approach and handle the relationship between planning and market has become a central question in the economic structural reform. If planning and market are linked to capitalism or socialism, then it will be hard for us to bring about, in practice, a revolutionary change in the traditional structure, and developing the socialist commodity economy will also become empty talk. If planning and market are taken as the means of reasonably distributing resources and regulating and controlling economic operation, and if we make it clear that planned economy is not equal to socialism and market economy is not equal to capitalism, then our minds will be suddenly enlightened and our attention will stretch from China's conditions to the exploration of the general law that governs the development of commodity economy in human history.

In the past 13 years, theoretical circles, the economic departments of the government, and the people engaged in reforms in all fields in our country have studied the theory and practice of market economy in contemporary capitalist society in all aspects in order to assimilate some useful experience for developing commodity

economy in our country. This effort is in line with the objectives of establishing the economic operation mechanisms which combine planned economy with market regulation, continuously expanding the scope of market regulation, and strengthening the market mechanism. Boldly assimilating and taking as reference all achievements of civilization created by human society is precisely a historical materialist attitude, a scientific attitude, and a Marxist attitude.

In the historical process of reform and opening, what should be assimilated and taken as reference? We should assimilate and take as reference all advanced operation modes and management methods in all countries of the contemporary world, including those in the developed capitalist countries. Here, two points must be grasped: First, what we need is experience in keeping with the regularity of modern large-scale production, because through our hard work in the last 30 to 40 years, our country has basically built up a full range of industries in our national economy, in which modern large-scale production holds a dominating position in more and more realms. Second, we need to assimilate advanced operation modes and management methods, because ours is a socialist country and we do not need capitalist relations of production; and we are striving to emancipate and develop productive forces through reform, so we do not need backward operation modes and management methods. A few years ago, when some people proposed adopting the joint-stock system in China's reform, a prolonged controversy between different opinions was brought about. At present, through the successful experience gained by the pilot projects for the adoption of the joint stock system, people have achieved a consensus of opinion. First, they have come to realize that the emergence and development of the joint-stock system is in keeping with the development of commodity economy and large-scale socialized production, and is an enterprise organizational form and an operation mode suited to large-scale socialized production. It is not something existing solely in capitalism, but something that can be used when large-scale socialized production is developed in socialism. Second, from the reform of the state-owned enterprises in the past 13 years, people have come to realize that the adoption of the joint-stock system provides an effective way to really separate government functions from enterprise functions, to appropriately disconnect ownership from management, and to make enterprises operate on their own and bear sole responsibility for their own profits and losses, and it is also a good method of seeking an effective form of organizing the public economy. Third, at a deeper level, a successful enterprise under the joint-stock system can better solve a difficult issue in the reform of the state-owned enterprises, that is, the issue of clearly defining property rights relations. With the meetings of shareholders, the board of directors, and the council of supervisors in a joint-stock enterprise, not only can the status, role, and mutual relations of the owners be clearly delineated, but also the rights, duties, and responsibilities of the owners and the management can be clearly

stipulated. Fourth, from the successful results of the pilot schemes for adopting the joint-stock system in some enterprises, people can directly see that the adoption of this enterprise organization form can raise social funds for production and construction widely, maintain close relations between shareholding workers and the enterprise as the two sides share the same destiny, increase the enterprise management's sense of responsibility, pressure, and initiative, strengthen and enhance the enterprise's economic accounting, financial system, and management level, and especially bring about a series of profound changes in the enterprise operation mechanisms. All this is precisely what the enterprise reform is aimed at. However, such practice does not result in changing the socialist character of the enterprises.

Assimilating and taking as reference other countries' experiences does not mean copying them rigidly and totally, instead, it means sublation (yang qi 2254 2757) and development. Ours is a socialist country, and we have our own national conditions. We need to follow our own road of building socialism with Chinese characteristics. Obviously, the practice of totally copying other nations' practice is not only inadvisable but also deleterious. In this regard, we must also adhere to several basic principles. First, we must keep public ownership as the dominating factor in the economy and must not pursue privatization. What we are doing is exploring concrete ways to increase the dynamism and vigor of the public economy rather than backtracking to private ownership. Second, we must proceed from China's specific national conditions and from reality, and should "make foreign things serve China" in a creative way. The measures of transforming some state-owned enterprises by adopting the joint-stock system, encouraging the adoption of the joint-stock system in some newly founded enterprises and enterprise groups in order to build up close asset bonds, and openly issuing A shares and B shares in society and including them in stock exchange listings not only give expression to the assimilation of other countries' experience in the handling of the joint-stock system, but also show what we have created in adopting such practices in connection with China's specific conditions. Building socialism with Chinese characteristics is a proposition with substantial content. Without the spirit of daring to break new ground, we will not be able to achieve our purpose. Third, we should be bolder in carrying out reform and should dare to try new things and dare to plunge ourselves into practice. If one wants to know the taste of a pear, one must eat it. If we want to judge whether certain advanced experience of a foreign country is effective in China, we must give it a trial. The process of trial is also the process of sublation. With the false being eliminated and the true being preserved, the experience can be further spread and adopted across the board. Practice is the sole criterion for judging the truth. This is also the case in the course of assimilating and taking as reference other countries' advanced experience.

The historic task of reform and opening has not been fulfilled yet, and new things, new questions, and new

experiences will continue to appear. We should get a clear understanding of the situation, seize the opportunity, and quicken the pace of reform and opening. Here, "quicken" means that development as a whole should be made quicker. In particular, the special economic zones, the coastal open areas, and the localities which have recorded rapid development in recent years definitely have the conditions for developing at a speed higher than the national average. We emphasize rapid development in the overall situation, and this means that we require every locality to develop very quickly. Localities with a weaker foundation and poorer conditions should seek gradual development, and there must be no "compulsory uniformity [yi dao qie 0001 0430 0434]" imposed on all localities. By seeking quick development, we never mean that we can disregard the objective laws, blindly pursue unrealistic high growth rates, and even repeat such folly as recklessly starting new projects and conducting duplicated construction without giving consideration to our national conditions. In short, we should aim at development, boldly advance reforms, and combine reform with the effort to improve our work style and work methods. We cannot be overcautious and fear to make strides. On the other hand, we should also do solid work and strive for solid results in our work, indulge in no empty talk, formulate concrete measures for in-depth reform through making careful investigations and well-considered arrangements, and ensure the effective implementation of all the policies that have been officially adopted.

With the rich experience of reform and opening that we have gained in the past 13 years, we are more confident in further emancipating our minds, plucking up our courage, and making greater strides in reform. We also have greater ability to assimilate, take as reference, and develop the fruits of other countries' civilization for the purpose of pushing the development of our national economy to a new stage.

PROVINCIAL

Governor Ge Hongsheng on Economic Development

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in Chinese 13 May 92 pp 1, 4

["Ge Hongsheng Proposed at the Seventh Plenary and Enlarged Meeting of the Eighth Provincial CPC Committee Seizing Favorable Opportunities To Accelerate the Pace of Reform and Opening and Working Hard Toward Realizing the Goal of Quadrupling the GNP Six Years Ahead of Schedule"]

[Text] Participants at the Seventh Plenary and Enlarged Meeting of the Eighth Provincial CPC Committee have discussed the issues of accelerating the pace of economic development, reform and opening in our province in line with the guidelines set forth at the Plenary Session of the Political Bureau of the CPC Central Committee and according to Comrade Deng Xiaoping's important

speeches. Ge Hongsheng, deputy secretary of the Provincial CPC Committee and governor, spoke on four issues at the meeting in line with the guidelines laid down by members of the Standing Committee of the Provincial CPC Committee.

1. Accelerate the Pace of Economic Development and Raise It to Another New Level

The key to studying Comrade Deng Xiaoping's speeches is to accelerate the pace of economic development and strive to raise economic development to a new level every several years. Economy is central to all work. It goes without saying that we should develop the economy. The purpose of emancipating the mind and deepening the reform and opening, in the final analysis, is to develop the economy. The CPC Central Committee has called for the redoubling of our country's GNP by the year 2000. As Zhejiang enjoys a good economic foundation, we could accelerate our economic growth a little bit faster. At a growth rate which has been readjusted to 8 percent this year, Zhejiang will quadruple its GNP in 1994, reach about 130 billion yuan of GNP by the end of the Eighth Five-Year Plan period, and about 200 billion yuan of GNP by 2000, or more than six times that of 1980, if the set growth speed is maintained during the Ninth Five-Year Plan period. We will bring about the development of the economy to new levels. To be sure, it is important to bring about major quantitative economic development, but we feel it more important to raise the quality of the national economy in all fields. We will devote several years to consolidate our province's economic foundation, to make our province's economic structure more rational, to upgrade our technological levels, and to make our economy more export-oriented.

In order to realize the above goals, it is necessary to accelerate the pace of development in the following areas. We will accelerate the infrastructure construction and basic industry building. Energy and raw material shortages and the low pace of infrastructure construction in such areas as transport and communications will be the biggest factors affecting the development of the Zhejiang economy. The basic condition for developing the economy to a new level will be lost if nothing is done to rectify the above problems. Our study shows that in order to quicken the infrastructure construction and basic industry building, it is necessary to quicken the implementation of the Eighth Five-Year Plan projects as well as to advance projects which are in the Ninth Five-Year Plan to the Eighth Five-Year Plan; consideration should also be given to restoring some projects which were dropped from the 10-Year Program and from the Eighth Five-Year Plan, but are now becoming necessary.

It is necessary to accelerate scientific and technological progress. We should rely on science, technology and education to promote rapid economic development. On the one hand, we should strive to reach domestic and foreign advanced scientific levels by organizing scientific

and technological personnel to engage in the development, research and application of high technologies and greatly promote the industrialization and commercialization of high and new technologies. On the another hand, we should, based on our province's existing economic structure, accelerate the transformation of traditional industry and bring about the rejuvenation of old enterprises. Education must also be adapted to economic construction requirements. It is necessary to increase investment in education, accelerate educational reform, and readjust the vocational education structure. Our goals call for achieving a sharp rise in the overall strength of our province's scientific levels in mid and late 1990s, reaching the nation's above-average level in science, raising the ratio of scientific and technological progress which contribute to economic growth by 10 percent, to about 40 percent by the end of the Eighth Five-Year Plan period and to about 50 percent by the year 2000.

It is necessary to accelerate the development of our export-oriented economy. The development of the export-oriented economy had already become an important impetus to our province's economic growth in the 1980's. Our province's export value in 1991 accounted for 16 percent of its total output value. To speed up economic development in the 1990's, we should considerably increase the volume of our exports. Since we place hopes on opening wider to the outside world, we should make particular efforts to do so and strive to earn \$5 billion of foreign exchange toward the end of the Eighth Five-Year Plan period. Then, the province's total export value calculated according to the current regulated exchange rate will account for approximately 25 percent of its total output value—with an increase of two percentage points per year.

It is necessary to accelerate economic development at the county level and the building of small cities and towns. The urban economy is the leading factor of our province's economy. The stress of our work is still to run large and medium-sized enterprises efficiently. Village and town enterprises and some other economic sectors are rather active, and the economic development at the county level is relatively fast—this is a distinguishing feature and also a great potential of our province's economic development. We should adopt encouraging policies. While persisting in taking the economic sector under public ownership as the main body, we should develop diverse economic sectors simultaneously, including state-, collective- and individual-owned enterprises and foreign-funded enterprises, and make the factors of counties, townships, villages and households function at the same time, so that our province's economy will develop faster. Small cities and towns are very important to economic development at the county level. While dividing areas into towns and townships, we should further step up the building of small cities and towns.

The above tentative plan is positive and feasible, and it can be implemented through effort. While calling for a high growth rate, we should stress quality and economic

results. This is also a consistent requirement set for us by Comrade Deng Xiaoping and comrades of the party Central Committee. The central task in our economic work is to raise efficiency and quality. In accelerating economic development, we should always persist in stressing both the growth rate and efficiency; we just cannot put undue emphasis on output value without taking market demand and economic results into account, nor can we haphazardly start projects and engage in duplicate construction without taking industrial policies and financial and material resources into consideration. Now we should continue our efforts to restrict the production of unsalable goods and reduce stockpiles and to put an end to losses and increase profits. At no time should we relax our efforts to crack down on fake and inferior goods.

2. Open Wider to the Outside World in Concert With Pudong Development

Our province still lags far behind fraternal coastal provinces and municipalities in opening to the outside world, especially in using foreign funds. We should have a sense of urgency and confidence and be aware of our favorable conditions in this regard. The central authorities regard the development and opening of Shanghai's Pudong as an important task of the country in the 1990's. This provides a good opportunity for our province to open itself wider to the outside world and speed up its economic development. Shanghai is an international metropolis and the economic, financial, trade and information center of our country. Pudong is being developed and opened to the outside world on a large scale. This will produce a great influence and certainly give impetus to the development of the Chang Jiang Delta and even the country as a whole. As an important flank of Shanghai, Zhejiang should consider its overall planning for opening to the outside world against the background of the development and opening of Pudong. Shanghai has its unique favorable conditions, and Zhejiang has its distinguishing features. On the principle of full coordination and cooperation, complementing each other with favorable conditions, and common development, we should take Shanghai's Pudong development as our example on one hand and, on the other, participate in Pudong development in various forms and through various channels, make full use of Zhejiang's favorable conditions, and open our province wider to the outside world.

According to the general plan for Zhejiang's opening to the outside world in the 90's, the province will develop three cities ahead of others, concentrating on the most important projects, rely on ports to develop two regions; and develop the whole province step by step and achieve all-out opening to the outside world.

—Developing three cities ahead of others, concentrating on the most important projects: Ningbo and Wenzhou, two coastal open cities, and Hangzhou, an international tourist city, will develop ahead of others.

Of the three cities, Ningbo occupies the most important place in Zhejiang's opening to the outside world. The construction of Beilun Port Industrial Zone, in particular, is vital to the economic development of the entire province. In the 90's the province will allocate more resources to accelerate Beilun Port's construction and build it into a large international transit port, East China's major trade port, and Zhejiang's important energy and raw material base and largest export processing industrial zone.

—Relying on the ports to develop the two coastal regions. The province will use Beilun Port as the center, link it with small- and medium-sized ports along the coast and, proceeding from Ningbo and expanding in both directions, speed up the development and construction of the regions along the Shanghai-Hangzhou-Ningbo expressway (including Shaoxing, Hangzhou, Jiaxing and Huzhou prefectures) and along Zhejiang's eastern golden coastline (including Zhoushan, Taizhou and Wenzhou prefectures). These regions possess a strong economic and technological foundation and, more importantly, are geographically linked with Shanghai. They can take advantage of Pudong's development to speed up their own development and opening up and take the lead in developing an export-oriented economy.

—Developing the whole province step by step and achieving all-out opening to the outside world. Along with the development of the economy and improvement of the economic conditions, the province will also accelerate the development and opening up of regions along the Zhejiang-Jiangxi and Jinhua-Wenzhou railway lines. In the immediate future, the province will try to place Jinhua and Quzhou city districts, Lishui City, and Qingtian County on the list of economically open areas. In addition, it will set up industrial satellite towns in a number of economically developed regions. Our opening is the opening up of the entire province. Not only its coastal regions should open up, its central and western regions should open up as well. The province will support and encourage these regions to actively use foreign capital, increase export, develop border trade, and gradually increase the extent of opening to the outside world.

On the basis of this setup, we will step up efforts to accomplish the following:

First, successfully building and operating different types of development zones: 1) We will strive for the establishment of the Beilun Port Free Trade Zone and, following international practice, undertake export processing, transit trade, and related storage, packaging, banking, and insurance businesses. 2) We will successfully build and operate Ningbo and Wenzhou economic and technological development zones. 3) We will successfully build and operate Hangzhou high and new technology industrial development zone and gradually develop a new economic structure dominated by high and new technologies. 4) We will strive for the establishment of

Hangzhou's Xihu tourist resort zone and take bold steps to attract foreign capital to develop tourism and the tertiary industry. 5) We will strive for the establishment of several investment zones for foreign and Taiwan investors, including the Qianjiang Investment Zone. 6) We will establish a number of agricultural economic development zones and promote the development of export-oriented agriculture through the adoption of policies more preferential than those offered to industry.

Second, increasing the area to be opened to the outside world. In light of its plan to open up large areas along the coast and selected areas in the interior, the provincial government has asked the State Council to approve the request to add 17 counties and cities to the list of economically open areas. If the request is approved, the province will have 53 economically open areas, which account for 66.4 percent of Zhejiang's total area and almost 90 percent of its gross domestic products, revenues and exports.

Third, raising the level of the utilization of foreign capital. We should try to use foreign capital when undertaking large, medium-sized, or small projects, placing the main emphasis on large and high-grade projects. We are making plans to use foreign capital in developing a number of large projects, including water conservancy, transportation, telecommunications, energy, and materials projects, technological transformation projects of large and medium-sized key enterprises, and projects for developing large tracts of land and tourist resources. We will further expand the area where foreign capital may be utilized, from setting up industries to developing agriculture and tertiary industry. We welcome foreign entrepreneurs to invest in crop cultivation, livestock breeding, processing, marine aquaculture, deep-sea fishing, and overseas real estate development.

Fourth, continue to develop foreign trade. We should continue to deepen the structural reform of foreign trade and expand the decision-making authority of various localities and enterprises in dealing with import and export. It is necessary to set up an industrial and commercial fund for foreign trade to encourage enterprises involved in foreign trade to set up or invest in industrial, commercial, and foreign-funded enterprises and form a number of export commodity production enterprises and bases that integrate trade with industry, agriculture, technology and commerce. We will also set up more trading organizations in other countries and regions and encourage a number of well-equipped enterprises to establish trading and production enterprises abroad.

Fifth, actively develop international economic and technological cooperation. As the province has abundant, high-quality labor resources, we should take advantage of this edge to venture into the international market. It is necessary to further expand our share of foreign labor markets and concentrate particularly on developing labor cooperation with countries and regions such as Japan, Singapore, the Commonwealth of Independent States, the Middle East, Hong Kong, Macao and Taiwan.

Sixth, aside from opening up wider to the outside world, we should also open up to other parts of the country; we will be able to introduce foreign resources and cooperate with domestic partners at the same time by working along both lines. This has two meanings: One is the expansion of economic and technological cooperation with other provinces and municipalities in the country, the other being the strengthening of economic and technological cooperation between the coastal and the south-western areas inside the province itself. We will give preferential treatment to all investors who make use of Zhejiang's ports, coastal cities, and economic development zones or set up new commercial or industrial enterprises here, regardless of whether they are from Zhejiang or elsewhere and whether the businesses are sole-proprietorships or joint ventures. For joint ventures, the products, revenues and profits may all be divided; for sole-proprietorships, the owners may take away all of them.

To accelerate the pace of opening up to the outside world, we should make efforts to improve the soft investment environment for foreign businessmen, aside from promoting infrastructure construction to continue improving the hard investment environment. It is necessary to pay close attention to put in order, by sticking to the proper ones and revising or abolishing those which are out of step with the present situation and economic development, documents formulated during the period of economic improvement and rectification. At the same time, we should further delegate power and relax our policies. We should, within the limits of the provincial government's authority, delegate interrelated decision-making powers that may be delegated. In addition, we may grant certain economic administrative powers now possessed only by prefectures or prefectural-level cities and give necessary preferential treatments in financing and credit, to counties and county-level cities with gross national product approaching or exceeding 2 billion yuan, financial revenue approaching or exceeding 200 million yuan, and total procurement of export commodities approaching or exceeding 300 million yuan, counties and county-level cities bordering on Shanghai, and port cities such as Jiaojiang.

3. Devote More Energy To Reform and Transform Economic Operation Mechanisms

Reform and opening complement each other; they are two sides of the same coin. In carrying out reforms in our province, it is necessary to adhere to the direction of building socialism with Chinese characteristics and set goals of establishing an operation mechanism with the emphasis on market regulation and of developing social productive forces. We should also devote more energy to transforming enterprise mechanisms, enlarging the role of market regulation, changing government functions, accelerating reform, and carrying out reform in depth and breadth.

It is necessary to step up reform in enterprises with the emphasis on changing enterprise operation mechanisms;

we should also do a good job in reforms related to changing enterprise operation mechanisms. This year, the reform of "two systems" in industrial enterprises and the "lifting of controls in four areas" in commercial enterprises are high on the agenda items of reforming the system of economic structure. We will step up implementation of the reform plans. It is also necessary to explore ways to deepen enterprise reforms. This year, the share-holding system will be further tried out in selected enterprises; a large number of large- and medium-sized enterprises will be selected and given over 10 years in which to carry out experiments on contracting plant building and product production. On a trial basis, a number of state-run enterprises will carry out experiments on the enterprise management system that is now being practised at Sino-foreign joint ventures, cooperative enterprises, and wholly foreign-owned enterprises. Leasing and auction of some small, poorly-managed and money-losing enterprises will be conducted on a trial basis. Bankruptcy experiments will be carried out in some selected enterprises which show no hope of reversing losses and whose liabilities exceed their assets. Enterprises of some professions will be selected to experiment with enterprise groups.

Related reforms of the social insurance system should be stepped up at the same time, of which the most pressing ones are reform of the staff member and worker pension system, job-awaiting system, and public medical care system. As the State Council has approved our province's housing system reform plan, it is necessary to quicken the implementation of the plan. To explore ways for supplementary reforms designed to transform enterprise operation mechanisms, the province is considering selecting one or two counties and cities to carry out comprehensive reforms on a trial basis.

It is necessary to establish a market system, enliven funds circulation, and develop tertiary industry. Equal attention should be given to continuously doing a good job of building existing market as well as to developing such key markets as technology, information, labor, and real estate markets, and to establishing several large-scale, high-level, and wide-ranging specialized and wholesale markets. Conditions permitting, commodity futures markets should also be established. The development of a commodity economy requires resolutely doing away with regional barriers. It is necessary to step up rectification of highway checkpoints. Except for a few necessary highway checkpoints which are approved by the provincial government, all others must be dismantled.

To open up wider to the outside world and to accelerate economic development, we need plenty of funds. We should continue to devote our major effort to putting available funds to efficient use to improve fund usage. In utilizing existing funds, we should bring about a rational distribution by ensuring that key projects get sufficient funds, by preventing excessive funding from pouring into the hot spots, and by supporting high-end projects. In the meantime, it is necessary to try every means to

create more fund-raising channels to secure funds for development. One way is to manage credit plans more flexibly. A second way is to increase direct funding. First of all we may select a few enterprises that are relatively sound and allow them to issue shares to the public and be listed on the stock exchange. These enterprises may, in accordance with the requirements of standardization, issue a number of in-house shares to make preparation for subsequent public listings. A third method is developing financial organizations; we will vigorously create conditions for securing the establishment of Sino-foreign joint-venture banks and will permit the establishment of one or two foreign banks and a number of offices for foreign banks, set up additional branches of Chinese banks in the counties, and form international business departments in certain specialized banks, as well as securing agencies for them. A fourth way is to form shareholding leasing companies that operate throughout the province to vigorously develop the leasing of businesses.

Tertiary industries are the province's weak link. Accelerating the development of tertiary industry is conducive not only to shaping a pattern of extensive circulation and vast markets, but also to pushing enterprises toward the market and accelerating the transformation of operating mechanisms of the economy. It is necessary to adhere to the principle of pooling resources from the state, collectives, and individuals and to adopt preferential policies to encourage the participation of the entire society in the tertiary industry. —It is necessary to intensify reform of the management system of science and technology and closely integrate science and technology and economy. Science and technology are essential to the development of the economy, and the fundamental way to accelerate scientific and technological progress lies in intensifying reform. First, we should push most scientific and technological research institutes into competition on the market, actively develop civilian-run research institutes, boldly absorb foreign investment to set up exclusively-owned or joint-venture research institutes, second, we should encourage and help scientific and technological personnel to join enterprises, set up several shareholding enterprises owned in part by scientific and technological units, third, while the state continues increasing input in science and technology, economic departments and enterprises should become the main investors. Enterprises should set aside new product development funds as required by regulations. Provincial authorities should set up science and technology risk funds to be spent on new- and high-tech development and research.

Intensifying reform of the scientific and technological management system and promoting technical progress depends, in the final analysis, on the initiatives of scientific and technological personnel. We must vigorously bring up and train research personnel, readjust the distribution and specialties of colleges, expand enrollment for such disciplines as foreign economic relations, foreign trade, and foreign languages whose graduates are in great demand. Close attention should be paid to the

continuing education of scientific and technological personnel, so that they can keep up with the latest developments. We should attract scientific and technological personnel from all disciplines—especially middle-level and senior engineers and technicians—to work in Zhejiang by lifting restrictions. Efforts should be made to improve the reward system, handsomely reward scientific and technological personnel who have made great contributions and encourage them to prosper ahead of others.

—It is necessary to implement reforms to change the functions of government departments. Speeding up economic development, reform, and opening up requires further changes in government functions. We must persist in separating the functions of government and enterprises and run enterprises in full accordance with the enterprise law. Enterprises will be given a free hand to run their own affairs and the focus of the government's economic management will be shifted to formulating plans, policies, laws, and regulations and to exercising macro control. In accordance with the principle of combining economic planning with regulation by the market, use of mandatory plans for production and distribution will be appropriately reduced, while the role of guidance planning and regulation by the market will be expanded. Except for some major commodities that are vital to the national economy and the people's livelihood, the absolute majority of commodities should be allowed to trade freely. We must also implement corresponding reforms in the financial system; the current system of "retaining profits in excess of the quota" should be replaced by a "revenue-sharing system."

Overlapping government organs and overstaffing are incompatible with the needs of economic development. Experimental organizational reform will be carried out this year. County-level departments charged with overall responsibilities in Shangyu, Lantou, and Longquan Counties—units which have been chosen for this reform—should speed up their progress. If conditions permit, other cities or counties may also carry out single-item reforms. We should, along the lines of "smaller government, greater service," separate agricultural economic and technical departments from the administrative system, turn them into business and service entities, and use them as a start for the development of a complete service network. Efforts should be made to develop, step by step, collectivized service entities that integrate production, supply, and marketing, agriculture, industry, and trade, and agriculture, science, and education. Some government departments at the provincial and county levels should be selected to try out personnel reduction reforms. An appointment system with clearly defined positions, responsibilities, and personnel quotas should be implemented on a trial basis in line with the principle of streamlined administration.

4. Strengthen Leadership, Vigorously Carry Out Practical Work

Leadership is the key to transforming the above ideas into actions and to obtaining results. Comrade Xianping said that we must do more practical work and talk less. To strengthen the leadership and to vigorously carry out practical work, we must overcome formalism and the tendency to put on airs, free ourselves from excessive meetings, paper work, entertainment activities, and study tours, and concentrate more effort on vigorously carrying out practical work.

The ideas proposed in this meeting are only a rough outline—various departments in all localities must translate these ideas into specific measures. Creatively carrying out work by integrating the guidelines of the higher authorities with actual local conditions is the kind of work style our party advocates. It is also an important indicator of the standard of leadership of a particular locality or department. We must adhere to the party central committee's and the province's overall plan to practically study the implementation of the suggestions by basing actions on the actual conditions of the province, the townships, and the counties involved. We must carry forward the spirit of daring to think, to try, and to strive in our implementation work. The lower level can also carry out measures which are not planned by the higher authorities as long as they are "conducive to the three causes." [conducive to developing the productive forces of our socialist society, increasing the overall strength of our socialist country, and improving the people's living standard]

Leadership at all levels must pay special attention to investigating and studying the many new situations and new problems which have cropped up in the process of speeding up reform and development. While carrying out tracking surveys on policies, measures, and experimental reform points implemented to sum up and absorb new experiences gathered at the lower levels for application in a timely manner, efforts should be made to carry out advance surveys and research focused on major issues which impact the overall situation and the long-term, in order to further expand the scope of reform and development and enhance the prognostic and scientific nature of leadership work.

To vigorously implement practical work, we must strive for efficiency and ensure the smooth flow of orders, leadership at all levels must attach importance to doing a good job in coordinating all rules and regulations and all levels into an integrated force. All levels and all departments must strengthen the overall concept and voluntarily abide by the interests of the whole. They must channel their hearts and energy in one direction. At the same time, the responsibility system must be strengthened, the authority, responsibility, and benefits of all works must be clearly specified, and we must make sure the work is properly planned and inspections are carried out. In the assessment of work, apart from

looking at the department's own work, we must also look at the department's record of obeying and serving the central tasks.

Following the deepened implementation of the policy of reform and opening to the outside world, we will touch upon a series of high level conflicts, as well as the interests of the people, leadership at all levels must pay attention to strengthening ideological and political work and to striving to maintain social and political stability. We must relentlessly promote both the material and spiritual civilizations and equally stress both material and ideological progress. Ideological and political work must focus on the central task of economic construction to promote reform and opening to the outside world. The party's basic line, the great achievements of reform and opening to the outside world, and the brilliant practicality of the people amidst reform and opening to the outside world should be vigorously publicized to create a social environment which thinks, implements, and supports the policy of reform and opening to the outside world. Discipline and law enforcement departments should focus on the central task of economic construction to voluntarily participate in the implementation of reform and opening to the outside world, to improve handling of discipline enforcement work, and to enhance clean government construction, in order to serve the cause of reform and development. The mass line should be adhered to, we must attentively listen to the masses' opinions, show concern toward the lives of the masses, and do whatever possible to help them solve some actual problems.

In the efforts to speed reform and opening to the outside world and to promote economic development, the cadres are the deciding factor in ensuring the proper implementation of all works. We must adhere to the criterion of having both ability and political integrity and the principle of the "four transformations" [making the ranks of cadres more revolutionary, younger in average age, better educated, and professionally more competent] to boldly promote those who adhere to the party's basic line and have achieved outstanding results in economic and social development and reform and opening to the outside world to enter leading organs at all levels, and be particularly bold in making exceptions to promoting outstanding middle-age and young cadres with innovative spirit. We must pay attention to protecting the reformists; we must warmly give assistance and support to cadres who have an innovative spirit for reform and have achieved actual work results, but who suffer certain flaws.

AGRICULTURE

State Councilor on Agricultural Development

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[Report by staff correspondent "China To Follow Road of Top Quality, High Yield, and Efficiency in Developing Its Agriculture—State Councilor Chen Junsheng Answers Reporter's Questions"]

[Text] Abstract —Agriculture is the foundation of the national economy and all other basic industries. Equal attention should be given to invigoration of large- and medium-sized state enterprises and development of the rural economy and the two should promote each other.

- We should take the road of "top quality, high yield, and efficiency" in developing agriculture. This is a major strategic issue related to the question of whether the 900 million peasants can march from "having enough to eat and wear" toward a "comparatively well-off" level.
- Top-quality, high-yield, and efficient agriculture has the characteristics of high science and technology content, high use rate of resources, high yields, high increment and commodity rate through processing, and high comprehensive efficiency.
- To attain top quality, high yield, and efficiency, the basic rural policies should be stable. It is also necessary to increase the sense of reform and opening up, and to introduce agriculture and peasants to the market.
- Thanks to the development of a top-quality, high-yield, and efficient agriculture, a great benign cycle of great agriculture, market, circulation, science and technology, and service will be established in China's rural areas. Its significance and influence will be far-reaching. [end abstract]

The situation of China's agricultural development has been excellent in recent years. How should we maintain this trend and make further progress on this basis? During the sessions of the National People's Congress [NPC] and Chinese People's Political Consultative Conference [CPPCC] this year, state councilor Chen Junsheng said that the road of "top quality, high yield, and efficiency" must be followed in developing agriculture in the years ahead. This is an important task for pushing agriculture to a new level. It is also a new train of thought in China's agricultural development, which means that China's agricultural development is facing a major strategic change.

A few days ago, a LIAOWANG reporter interviewed Chen Junsheng, and asked him about the background to and the way to attain the new train of thought which he proposed and about supporting reform measures. The following is the interview given by Chen Junsheng to the reporter:

[LIAOWANG] The state has stressed that this year's reform will focus on invigorating large- and medium-sized state enterprises. Some people are worried that this will lead to relaxation of efforts in agriculture. Could you first mention the problems to be focused on in this regard?

[Chen] This question does not exist at the moment. When the situation of agriculture is good, however, it can

easily cause us to lower our guard, believing that agriculture has passed the mark and there is no need to continue to vigorously support it. This is not correct.

Above all, agricultural development resolves the problem of human subsistence. However, the purpose of agriculture is not merely to feed the people. It is the foundation of the national economy as well as the foundation of all other basic industries. Since reform and opening up, China's economy could develop to such a level primarily because of a relatively solid foundation of agriculture, which is also the foundation of the national economy. As agriculture is a basic industry and the foundation ensuring other basic industries in the course of reform and opening up, no industry can be developed without agriculture. Practice has proved that agriculture plays a crucial role in coordinating the overall situation of China's reform, development, and stability. China's national conditions also indicate that we cannot neglect agriculture at any time.

First, China's average cultivated land resources are decreasing. The increase in population and decrease in land has become an irreversible trend. China now has an average per capita of only 1.4 mu of land. Even though we can increase the amount a little through exploitation and reclamation, the population is increasing at an annual figure of around 15 million. Because of the pressure from a huge population, we should not in the slightest degree relax our efforts to develop agriculture.

Second, China does not have too much grain on the whole. The difficulty in selling grain in recent years is but a partial phenomenon, which is prominent in some grain-producing areas. This has something to do with insufficient granaries, clogged circulation, or grain processing. Viewed from the whole country, we do not have too much grain. China now has an average per capita of under 400 kg. Therefore, for a considerably long period, we cannot say that we have a lot of grain.

Third, restrictions on grain reform are not totally removed. The same prices for the purchase and marketing of grain practiced not long ago merely readjusted the prices instead of lifting the restrictions. When the restrictions are genuinely lifted, conversion of grain will increase markedly and then there will be no grain shortages.

In my opinion, the stress put on invigorating large- and medium-sized state enterprises will not affect agriculture. Viewed from the relations between agriculture and industry, when industry is invigorated it will offer capital, material, and equipment for agricultural development. The current stress put on invigoration of large- and medium-sized enterprises by the central authorities is conducive to agricultural development. Conversely, if the rural economy is not invigorated it would be disadvantageous to invigoration of large- and medium-sized enterprises. We have yet to open up two markets for manufactured goods. One is the international market and the other is the domestic rural market. China has

900 million peasants, constituting an extensive market with great potential. Therefore, only by giving equal attention to agriculture and industry can we invigorate both.

Following the founding of New China, our economic development suffered from setbacks on numerous occasions, which taught us an important lesson: The economy develops smoothly whenever importance is attached to agriculture. Otherwise, there will be setbacks. Now the CPC Central Committee and the State Council have both acquired a sober understanding in this regard. Viewed from the guiding ideology for China's economic development, the question of neglecting agriculture does not exist. However, this does not mean that work is done well in all fields from the top to the lower levels. Practices of talking much but doing little prevail in actual work. Therefore, I hope that the governments at all levels will take practical action in a down-to-earth manner.

(LIAOWANG) Agricultural development requires a new train of thought. During the NPC and CPPCC sessions this year, you proposed taking the road of "top quality, high yield, and efficiency" in agriculture. Could you please expound the background and special tentative idea which gave rise to this train of thought?

(Chen) This train of thought was proposed when China's rural economy and agricultural development entered a new stage. First, the broad ranks of peasants have embarked on the road from having enough to eat and wear to a fairly well-off level. The affluence of the people of the whole country will be impossible without the affluence of the peasants. This is a strategic question. Second, rural reform has further deepened on the current basis. New progress will be made in the years ahead and a mechanism suited to a planned socialist commodity economy will gradually be established and perfected. Third, a transition will be effected from traditional agriculture to an initially modernized agriculture. These three characteristics indicate that China's rural work has entered a new stage. Therefore, our leadership means and content must change correspondingly. The practices of hastening sowing and harvesting and focusing on grain will no longer work. Despite the enormous increase in grain output over the past decade or so, comparative efficiency has declined. According to a survey conducted in Shandong's Yantai, the ratio of agricultural, industrial, and commercial incomes was 1:3:10. Despite the sustained growth in the rural economy, the peasants' incomes increased at a slow rate and there was even an abnormal phenomenon of an increase in output but no increase in income. In addition, there were a number of poor counties, townships, villages, and households which had high yields. This has been particularly the case in the grain-producing areas. If this state of affairs continues, besides the difficulty in attaining a comparatively well-off level, it will even be impossible for agriculture to carry out expanded reproduction.

To put an end to such a state of affairs, we cannot merely rely on increasing grain prices. If grain prices are excessively increased, it will be difficult to maintain a balance with international price parities. Grain prices at home should coordinate with prices in the international market.

The large quantity of low quality rice and limited amount of fine quality rice is another reason for the poor economic efficiency of grain, which has resulted in difficulties in selling and has affected the peasants' incomes. During the period of grain difficulties in the past, quantity was important. Now we must have both quantity and quality. Practice of many localities throughout the country has set forth a new requirement, that is, take the road of "top quality, high yield, and efficiency" and pay attention to quality and efficiency on the premise of ensuring quantity. This is the only option for rural reform and development. This is also required for enhancing the country's overall strength, increasing the comprehensive productive forces of agriculture, and leading the broad ranks of peasants from having enough to eat and wear to a comparatively well-off level. It is also the specific manifestation of the implementation of the CPC Central Committee's basic line.

According to available experience, there are at least the following ways to take the road of "top quality, high yield, and efficiency."

First, rationally readjust the structure of crops in line with local conditions and develop fine quality rice.

Thanks to increases in grain output in recent years, people's diets have changed, resulting in overstocking and sluggish sales of low quality rice. As the quality of the early long-grained rice in the south cannot meet the varied needs of consumers, some provinces cannot sell their grain and now have billions of kilograms overstocked. Their grain superiority has now become a "burden." However, there has been a short supply of fine quality grain, which sells well in the market at home and abroad. If we put undue stress on output and disregard market needs, sluggish sales and overstocking will inevitably result in loss and poor efficiency. Hence, it is absolutely necessary to rationally readjust the farm product mix in line with local conditions. At present, Guangdong, Fujian, Hunan, and Jiangxi have adopted some corresponding readjustment measures to increase the sown area of fine quality rice, made efforts to increase the variety and improve the quality of grain, and tried by every means to raise the proportion of fine quality grain. Generally speaking, the output of fine quality grain is not high. So long as we strengthen breeding work and rely on new science and technology, we will certainly be able to increase the output. Guangdong bred a type of fine quality rice, which is good to eat and can also turn out high yields. The output per mu is 400 to 500 kg.

Second, increase the multiple-crop index and carry out in-depth development.

The multiple-crop index of the country's cultivated land was 150 percent in 1990. According to estimates by experts, the figure may reach 159 percent by 2000, which is equivalent to an increase of 93 million mu of cultivated land. If this proportion could be raised, efficiency would be better. The methods of crop rotation, intercropping, mixed cropping, and interplanting can be adopted to increase the multiple-crop index. For example, Hunan and Sichuan have attained better efficiency in their ratooning rice. There are also many localities in the north which have latent potential for multiple cropping. There is another example in Fugou County, Henan. The peasants there said vividly: "To become affluent, open a grocery in the fields." The peasants of the county have enough to eat and wear, and they are now striving for a comparatively well-off level.

Third, develop fruit, vegetables, and flowers.

There is great potential for developing vegetables in the suburbs of large and medium-sized cities. There is also plenty of scope for developing vegetables in the plain rural areas. In the years ahead, the north should build more large plastic sheds, make strenuous efforts to increase variety and improve quality, and create conditions to enter the international market.

Fourth, develop aquatic products.

The coastal areas should make full use of the beaches and inshore sea surface because income from one mu of sea surface can be equivalent to that from 10 mu of land. There is potential for making use of the Bohai Gulf and the Shandong and Liaodong Peninsulas. The interior should vigorously develop freshwater breeding, raise the level of scientific breeding, and increase the input-output ratio.

Fifth, do a good job of grain processing.

A good job done in this regard can also result in better efficiency. Nanjie village in Lingying County, Luohe Prefecture, Henan increased the value of food through processing. The output value of the village exceeded 100 million yuan, the only one in Henan.

Sixth, intensive processing of farm and sideline produce.

Instead of merely selling their raw materials to other localities, the areas turning out farm and sideline produce should carry out intensive processing and make multiple increments. The cities in Shandong earned 1.19 billion yuan in 1990 through processing of farm and sideline produce, of which output value of some 800 million yuan was attained through multiple processing.

Seventh, uphold the policy of walking on two legs and vigorously develop animal husbandry.

It is necessary to further strengthen animal husbandry, which is probably a breakthrough for many localities to

attain efficient agriculture and an essential means for the peasants in the plain to take the road to prosperity. The policy of walking on two legs should be followed in developing animal husbandry. One is to develop animal husbandry in the pastoral areas and the other is to develop animal husbandry in the agricultural areas. For a long time in the past, we neglected the fact that the agricultural areas could make use of straw as fodder to develop animal husbandry and thus lost one leg. Now the stress of developing animal husbandry should be put on walking on two legs.

China has a vast pastoral area, which accounts for 40 percent of the country's total territory. In the future, we should continue to strengthen pastoral areas. The country now turns out over 400 million tons of grain and over 500 million tons of straw every year. However, silage and ammoniated straw account for only 2.8 percent of the total amount of straw. The rest is either burned as fuel or wasted in the open. This pollutes the environment and also constitute a great waste. It will be an efficient road to make the most of crop straw to raise cattle and sheep. Moreover, there is potential for chickens, geese, ducks, and other grass-eating animals in the agricultural areas.

Eighth, vigorously develop sustained agriculture and courtyard economy.

All localities should make full use of their local natural resources to develop sustained agriculture. There is also potential for the development of courtyard economy. The country has around 200 million mu of land, of which some one-third can be utilized for development. Slight attention given to it will produce evident effects.

Ninth, the places with conditions should develop foreign exchange earning agriculture.

Guangdong and Fujian have attained initial successes in this regard. I recently made an inspection tour of Shunde County in the Zhu Jiang Delta. The county earned \$500 million in foreign exchange last year, of which \$200 million was earned from agriculture. Where conditions permit, it is necessary to vigorously develop this kind of export-oriented agriculture.

Tenth, vigorously develop township enterprises.

It is necessary to gradually change the traditional concept and structure of "delivering farm produce to urban areas and manufactured goods to rural areas." In the years ahead, processing of farm produce should be handled by the township enterprises below the county level. In township enterprises, there are two problems which merit attention: One is to make full use of local resources and run well the processing industry for farm and sideline produce, and the other is to improve quality and upgrade products as quickly as possible.

To sum up, we can see that top-quality, high-yield, and efficient agriculture generally has rich science and technology content, a high resources usage rate, a high input-output rate, a high increment rate from processing, a high commodity rate, and a high rate of comprehensive

efficiency. In addition to farming, a top-quality, high-yield, and efficient agriculture should include the rich contents of agriculture, forestry, animal husbandry, sideline occupations, processing, and catering. Grain is an important indicator, but not the only one, by which to judge rural economic work. It will be impossible for us to continue to make progress unless we develop in an all-round way. Nonetheless, we should never relax our efforts to develop grain production, which should be put in the primary place in rural work. Without grain, it will be difficult to develop other undertakings. We should pay close attention to quality and efficiency. Meanwhile, we should take note of developing diversified economies as well as the secondary and tertiary industries.

[LIAOWANG] What are the conditions required for developing top-quality, high-yield, and efficient agriculture and what supporting measures are to be adopted correspondingly?

[Chen] Above all, the key lies in establishing a market mechanism. An essential reason for the major achievements attained in China's rural reform over the years is that the scope of mandatory planning was gradually reduced, that of market regulation was gradually increased, and the market mechanism played a prominent role. The implementation of the contract responsibility system on a household basis with remuneration linked to output was an important manifestation of this mechanism. With the deepening of rural reform in the years ahead, the scope of market regulation will gradually be expanded. Guangdong is the first province in China where restrictions on grain have been lifted. There peasants set off firecrackers to mark the occasion. Some localities redoubled the area of fine quality rice. This shows that the enthusiasm of the producers can be aroused when the role of the market mechanism is brought into full play. Meanwhile, it is necessary to invigorate the rural market. If circulation is clogged and there is no access to market information, there will be difficulties in marketing even though the fine quality farm products are of great value. Then, the loss and effect would be greater. Therefore, we must place the development of the rural market on the agenda as quickly as possible. In light of the characteristics of production, processing, and marketing of farm and sideline produce, I think that a market economy should be basically practiced in the rural areas in the future. With the stress on market regulation, the state will only exercise macrocontrol over some essential aspects. For example, the state will purchase around 100 billion kg of grain and store around 60 billion kg a year, practice a floating price system, and transmit information. Now we should introduce large and medium-sized enterprises and agriculture to the market.

Second, it is necessary to improve the socialized service system for agricultural production. The development of top-quality, high-yield, and efficient agriculture depends to a great extent on a series of links of the pre- and post-production socialized services.

Third, it is necessary to increase the peasants' incomes. Large input is required to develop top-quality, high-yield, and efficient agriculture. Only when the peasants' incomes have increased will they have the money to develop fine quality farm produce. To increase the peasants' incomes, first, it is necessary to resolutely resist indiscriminate exaction and collection of charges and alleviate the peasants' burden; second, the prices of means of production should remain stable; and third, it is necessary to create more jobs and employ the surplus rural labor.

In a word, to attain top quality, high yield, and efficiency, the key lies in continuously stabilizing the state's basic policies for the rural areas, further carrying out reform and opening up, fostering a sense of commodity economy and invigorating circulation, widening our field of vision, emancipating the mind, and creatively carrying out work.

[LIAOWANG] Could you explain the significance of developing "top-quality, high-yield, and efficient" agriculture and its impact on China's rural economy as a whole?

[Chen] The impact will be great and the significance far-reaching. The development of top-quality, high-yield, and efficient agriculture will put an end to the state of a unitary production structure, a narrow market, clogged circulation, difficulties in spreading science and technology, and increases in output but not in income in China's rural areas and will result in a benign cycle of great agriculture, market, circulation, science and technology, and service. The rural economy as a whole will then be more comprehensive, vigorous, and flourishing.

[LIAOWANG] China's agriculture developed enormously in the 1980's. What are the prospects for China's agriculture in the 1990's?

[Chen] Although the contradiction between China's population and land has become increasingly sharp, there is still great potential for the development and utilization of agricultural resources. For this reason, there are bright prospects for China's agricultural development and we have every reason to be optimistic.

First, of China's available cultivated land, the medium- and low-yield land accounts for around two-thirds, or over 1 billion mu. If this portion of land is transformed, there will be great potential for increasing output.

Second, increase the resources of cultivated land through development. For example, we can exploit 15 million mu of the Huang He Delta, which is a considerable amount. There are also bright prospects for developing hilly areas. With efforts made from the 1950's to the present, Shashiye village in Hebei's Zunhua County reclaimed 800 mu of terrace land from hilly fields. Last year the village became one of the affluent villages in Hebei with a per capita income of over 1,200 yuan and average grain possession of 500 kg.

Third, agricultural resources are not fully developed and utilized, including 300 million mu of barren land suitable for farming, over 4 billion mu of grassland and slopes which can be utilized, 85 million mu of freshwater surface which can be used for breeding fish, and 30 million mu of sands and beaches. Development and utilization of these resources can enormously increase the production capacity of agriculture.

Fourth, there is still great potential for increasing output by means of science and technology. In China at present, science and technology plays a role of only around 30 percent in increasing agricultural output. Hence, there is ample scope for tapping the potential.

To sum up, so long as we vigorously tap the potential of agricultural development on the one hand and strictly exercise control over population growth on the other, we will certainly be able to attain the target of leading the 900 million peasants to a comparatively well-off level by the end of the century.

Overview of Vegetable Wholesale Markets

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[Article by Agricultural Products Wholesale Market Study Group of Rural Economic Research Center, Ministry of Agriculture: "An Overview of China's Vegetable Wholesale Markets"]

[Text] In 1991, the Rural Economic Research Center under the Ministry of Agriculture, in cooperation with the Beijing Municipal Academy of Social Sciences and Beijing Teachers University, conducted a rather detailed survey and analysis of five wholesale markets, focusing on vegetables. The five markets were the Dazhongsi and

Hepingli markets of Beijing Municipality, the South Station Market in Shenyang, and the markets in Shouguang of Shandong and Wuwei of Gansu. The purpose was to gain, through this systematic survey, a clear picture of the operational characteristics and the developing trends that appeared spontaneously in these markets. It was also hoped that a comparative study of international experience and domestic standard wholesale markets being planned at that time would bring to light the inherent needs and basic principles of wholesale market development in China thus providing a basis for the government's policy research toward the standardization of such markets. This article will give a comprehensive description and a concise analysis of the agricultural products wholesale markets at present based on the survey of the above five vegetable wholesale markets.

1. An Overview of the Wholesale Markets

At present, there are several ways to establish wholesale markets: (1) They may be established by industrial and commercial departments. Examples are the Shouguang and the Shenyang South Station wholesale markets. This kind of market accounts for the vast majority of wholesale markets in China. (2) They may be established by state-owned companies. For example, the Hepingli Wholesale Market in Beijing Municipality was established by the Hepingli State-Owned Vegetable Corporation. (3) They may be established by peasants' collective organizations, the most typical example being the Dazhongsi Wholesale Market in Beijing Municipality. (4) They may be established by the government, such as the Hainan Provincial Agricultural Products Wholesale Market. However, such examples are few in the entire country. The Dazhongsi and the other four wholesale markets are quite different in scale. (See the following table).

Scale of Five Wholesale Markets in 1990

Location	Total Area (10,000 sq meters)	Facility Investment (10,000 yuan)	Building Area (sq meters)	Annual Sales Volume (10,000 kg)	Annual Sales Amount (10,000 yuan)	Average Daily Business Number of Customers
Dazhongsi, Beijing	3.9	500	7,100	21,000	16,000	30,000
Hepingli, Beijing	1.87		1,015	1,793	2,500	150
South Station, Shenyang	1.6	4,800	30,000	16,000	17,000	3,250
Shouguang, Shandong	8	700	3,000	23,568	16,700	30,000
Nanguan, Wuwei	1.5		492	1,300	1,500	2,300

All these wholesale markets came into being in the midst of competition. Those involved in the competition were not only the markets' managers, but also buyers and sellers doing business in the markets. Shouguang County has five vegetable wholesale markets. Among them, the Shouguang (Jiuxiang) Wholesale Market has developed most quickly, achieved the best results, and won the highest prestige, and the other four are in a depressed

state. Similar conditions exist in Shenyang and Beijing. Both cities established a number of wholesale markets during the first half of the 1980's. Among them, the two newest ones are most successful. They are Shenyang's South Station Wholesale Market, which has become the largest wholesale market in Northeast China; and Beijing's Dazhongsi Wholesale Market, which is supplying the vegetable needs of nearly one-fifth of its population.

The size of a wholesale market is important, but more important is the scope of its activities serving the needs of society. The prosperity or decline of a wholesale market depends to a great extent on the size of its service network. The Shenyang South Station Wholesale Market has uninterrupted supplies of fresh goods from all sides, and is frequented by businessmen from all over the country. It is drawing agricultural products from 28 provinces, municipalities, and autonomous regions, and so far has more than 40 exclusive supply sources in 30 cities and counties of seven provinces in the country. Over 90 percent of the vegetables on this market are supplied from outside. Of this, 39 percent come directly from its own sources.

The Dazhongsi Wholesale Market in Beijing Municipality has regular suppliers in nearly 600 counties in 26 provinces, municipalities, and autonomous regions. From May to August each year, about 8 percent of the vegetables sold on this market are supplied from outside. From September to April the next year, vegetables from outside reach 95 percent of the total supply. As for the vegetable wholesale markets of Shouguang County, which itself is a vegetable-producing area, vegetables sold to other provinces and municipalities account for about 45 percent of the total transactions. Its customers are from as many as 29 provinces and municipalities.

Some relatively large wholesale markets in producing and selling areas are gradually becoming regional or even national agricultural products distribution centers. Now, Shouguang's wholesale markets are no longer exclusive markets for locally produced vegetables. It has drawn in agricultural products from 14 provinces and autonomous regions in the country. As a matter of fact, it has become a hub for transporting southern vegetables to the north and northern vegetables to the south. The Shenyang South Station Wholesale Market has also developed into a distribution center for vegetables produced in the south and transported to the north.

All wholesale markets whose business volumes have reached a certain level make a fairly good revenue. There are two sources of revenue: First, collection of the business management fee, generally 1 to 2 percent of the amount of transactions; second, collection of stall rents.

According to the practice of the Dazhongsi and the other four wholesale markets, for every yuan's transaction, the wholesale market gets a profit of 0.02 to 0.03 yuan. If a wholesale market has an annual business volume of 100 million yuan, the lowest estimate would put its revenue at 2 million yuan. Investment in wholesale markets is a rather lucrative project, and the money invested can be quickly recovered.

Among the wholesale markets relatively up to the standard for commodity circulation, those engaged in spot transactions generally attract widespread public participation. Of the Dazhongsi and the other four wholesale markets, some have set a daily record of more than 30,000 people doing business there. They come from

almost all social strata. The Dazhongsi Wholesale Market has 1,000 regular customers and more than 5,000 mobile customers, and 3,000 motor vehicles come to this market daily to do business. The buyers include self-employed businessmen, who account for 70 percent; government offices, nongovernment organizations, PLA units, schools, state vegetable supply centers, and other state- and collective-run units, which account for 20 percent; and individual consumers, who account for 5 to 6 percent. On the sellers' side, state- and collective-run sales agents account for 10 percent, while about 90 percent are made up of specialized peasant households engaged in transportation and sales of commodities, peasant households producing and marketing their own products, and households transporting goods over long distance for sale.

II. Market Transactions

Most buyers and sellers on the market conclude their transactions in person. Once a transaction is agreed upon, goods are delivered and payment is made. Cash is used to settle accounts. For instance, cash transactions account for 85 percent of the total amount of business at Shouguang wholesale markets. Money transfers by bank checks are mainly used between state- or collective-run units with established business relations, and payments in this way account for about 15 percent. Most payments through banks are one-time payments; only a few units pay according to a fixed or a flexible schedule. The markets' management has no rigid account settlement rules for any business party.

With the development of business activities, intermediate operations as purchase or sales agents have begun to appear. In general, such business are only temporary. In most cases, when the seller cannot sell his agricultural products already sent to the market, he would ask someone to act as a sales agent. Such instances have appeared in several relatively big wholesale markets, but so far no professional middlemen acting as purchase or sales agents have come into being.

There have been no dealings in futures, but prearranged purchases and sales by contracts have appeared between relatively big buyers and sellers. No fixed prices are set for such prearranged purchases and sales, and even no action is taken against the breach of contracts. Such prearrangements actually have no binding force. Some large wholesale markets have signed agreements with their suppliers, but these agreements are not in the nature of contract trade or dealings in futures.

Like trade at urban and rural fairs, prices of spot goods on wholesale markets are formed by buyers and sellers themselves. The markets' management does not get involved at all, and even the local governments seldom intervene. The buyer and seller first set a basic price in their minds by referring to the transaction price of the previous day (which is written on a blackboard or published in some other ways by most markets) and examining each other's attitude. Then, they begin their

price negotiations. In most cases, the seller quotes the price, and generally there is not much difference between the quoted price and the final price at which the transaction is concluded. Even though goods are purchased from and sold to the entire country through relatively big wholesale markets, the prices of these goods are mainly

dictated by the supply and demand on these markets, and they may differ immensely between different wholesale markets. Such price differences show that regional barriers have not been broken down in the formation of wholesale market prices.

Comparison of Prices of Three Products Between Shouguang and Dazhongai for 1990 Unit: yuan/kg

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Green pepper/ Shouguang	1.33	2.67	3.00	3.00	3.27	1.93	0.33	0.94	1.10	1.22	1.09	2.00
Green pepper/ Dazhongai	2.20	2.20	3.00	4.80	4.00	1.50	0.70	0.70	0.96	1.00	1.50	1.60
Cucumber/ Shouguang	3.36	3.50	3.03	3.20	0.97	0.20	0.20	0.43	0.48	0.44	1.08	1.92
Cucumber/ Dazhongai	1.80	1.60	3.40	2.80	1.30	0.40	0.30	0.72	1.00	0.90	1.50	2.40
Potato/ Shouguang		0.50	0.50	0.50	0.24	0.44	0.37	0.38	0.42	0.37	0.40	0.41
Potato/ Dazhongai	0.36	0.40	0.40	0.50	0.40	0.40	0.32	0.44	0.44	0.40	0.36	0.34

The above table clearly indicates that while market prices in these two localities fluctuated from month to month, the fluctuations were greater in Shouguang, which is a vegetable-producing area, than in Dazhongai, which is merely a selling area. Furthermore, prices in producing areas are not always lower than in selling areas. During the off-season period, in those localities classified as producing areas, prices of some commodities not produced locally may be even much higher than the market prices in selling areas.

The fast and large price fluctuations show that our spot wholesale markets, like urban and rural trade fairs, lack a price stabilization mechanism. Efforts to reduce market price fluctuations involve many tasks, including the furtherance of information exchange, government regulation and control, and development of market organizations and peasants' production organizations. Some localities have begun paying attention to this matter.

At present, wholesale markets in China have neither concentrated on improving price information exchange nor organized the wholesale businessmen on both the supply and demand sides so that prices may be formed in an orderly manner. There even is no stable contingent of intermediate businessmen. Such shortcomings have created many man-made reasons and random factors that affect to a great extent the formation of prices and lead to considerable market fluctuations. Moreover, since the ratios of market profit distribution are quite unstable, all those taking part in market transactions think that they are at high risks, and therefore, lack a feeling of stability.

Another major reason for the lack of clarity of market profit distribution and for the excessive price fluctuations is that wholesale markets in producing and selling areas have not established a relationship of organic

integration at every level. Practice in foreign countries reveals that, though wholesale transactions exist at all levels in society, only those relatively large central wholesale markets which can reflect fairly well the interests of producers and consumers are really affecting the market and playing a decisive role in the formation of prices. On central wholesale markets, suppliers or their agents are direct representatives of peasant producers. Goods are often collected in producing areas before they are sent to central wholesale markets. However, such collection of goods does not make up the price. Most goods collection markets are established by peasants themselves or organized by their sales agents. Goods collection markets do not settle accounts with peasants until transactions are concluded on central wholesale markets. As for sellers, not only do they have representatives on central wholesale markets, but there are also secondary and tertiary wholesale markets for them to exploit. Prices used in secondary and tertiary markets are set after the conclusion of transactions on central wholesale market. As can be seen, the distribution of market profits between those on the supply and demand sides is achieved through central wholesale markets, or in other words basic product prices are formed on central wholesale markets. Collection of goods and wholesale market dealings at other levels are in the nature of redistribution of profits among the sellers or buyers themselves. As long as the management of central wholesale market transactions is strengthened, market business will remain in a stable order, and the distribution of profits derived from prices can be relatively reasonable.

In China, prices of agricultural products formed in existing wholesale markets, particularly those located in selling areas, still are not basic prices. This is because the overwhelming majority of agricultural products, before

coming to the wholesale market, were purchased from peasants by dealers. Basic prices are formed, and in fact commercial profits take shape, when dealers purchase the products from peasants in the fields or on the roadside in producing areas. After the products have entered the wholesale market, sellers in most cases only represent their own interests, and transactions between buyers and sellers are entirely a redistribution of commercial profits. The prices formed then are only intermediate prices. Information regarding consumers' needs are by and large controlled by dealers. The phenomenon of basic prices of agricultural products formed outside the wholesale market indicates that peasants have not really gained the initiative in determining the prices even in the case of products whose supply is regulated by the market, and that peasants remain to be discriminated against under the system of market regulation. Another effect of such market discrimination is that it creates enormous profits for intermediate businessmen. In Beijing's Hepingli Wholesale Market, there is an individual household transporting and selling agricultural products. By taking advantage of the market price difference to do wholesale business, the husband and wife earned some 20,000 yuan in only three months. The prices of many vegetables at a retail stall are often 50 or even 100 percent higher than the wholesale market prices. Since peasants have not been well organized, the problem of market discrimination cannot be solved in a short time. Some sensible governments in producing areas have felt this problem and taken measures to intervene. For instance, Shouguang County has stipulated: Enterprises and individual industrial and commercial households are strictly prohibited from buying vegetables from producing areas and selling them on the wholesale market. Peasants are encouraged and supported to send their vegetables directly to the wholesale market.

Due to the widespread public participation in wholesale market activities and the various kinds of people involved, many administrative regulations and rules formulated by the markets themselves can no longer meet the requirements, nor is it sufficient merely to rely on their own personnel to manage and oversee the market operations. Government intervention to a certain degree is, therefore, necessary in order to make market management more authoritative. In wholesale markets, cheating, domineering, forcible buying and selling, fighting, and other order-disturbing incidents have occurred from time to time. Also, there is no unified measure to check the quantities of goods being purchased and sold. The Shenyang South Station and the markets in Shouguang, Shandong, have designated weight inspectors (or scale operators) to take the responsibility of weighing the goods being purchased and sold and overseeing buyers and sellers to ensure their fair trade. This is welcomed by both buyers and sellers, but there are no government laws and regulations that can be used as a basis for such practice. The Dazhongsi Market in Beijing puts stress on the need for consultations between buyers and sellers. The market has precision-tested scales for rent, but there is no full-time scale

operator to weigh goods for buyers and sellers. This has left a big loophole. After renting the scale, some buyers or sellers have secretly changed the sliding weight to take illegal advantage, thus cheating others and damaging the market's reputation. During the survey, many market managers expressed the hope that the state would promulgate some unified laws and regulations on wholesale markets.

The most fundamental functions of wholesale markets are to collect and distribute commodities as a way to balance supply and demand. Basically, wholesale markets located in producing areas are hubs for collecting and distributing agricultural products, while those in selling areas are inlets for agricultural products to come into cities. The functions of wholesale markets as collectors and distributors can effectively alleviate the market fluctuations caused by the imbalanced locations of supply and demand areas.

The function of wholesale markets as information centers, primarily price information centers, is becoming more and more prominent. Although more efforts are required to standardize the price-formation process, wholesale markets have a fairly big influence on both the producers and consumers in the formation of prices because these markets have large amounts of transactions, affect a large area, and represent the price level of agricultural products in certain regions. Accompanying the price information is information concerning the lines of products involved in the transactions as well as product quantity and quality. Such information is also effectively collected and distributed through wholesale markets.

III. Issues To Be Studied

The existence of agricultural products wholesale markets is an objective fact, and the trend of their development is irreversible. The appearance of wholesale markets is not merely an upgrading of trade fairs. It represents a new market system for the large-scale exchange of agricultural products.

At present we have no nationwide wholesale market development program. All localities are formulating their plans within their own jurisdiction. The fact that one of the five markets in Shouguang County is prosperous while the other four are slumping signifies a certain relationship existing between the wholesale market and the total supply and demand in the area, a phenomenon entirely different from the development of most production enterprises. The wholesale market law promulgated by the Japanese government only allows a central wholesale market in every region with a population of 200,000 or more. This is certainly reasonable. Furthermore, consideration should be given to coordinating the activities at various levels in building wholesale markets. Besides the relatively-large-scale central wholesale markets, there should be goods collection markets in producing areas as well as several levels of sub-wholesale markets in selling areas. This is the only

way to turn wholesale markets into an organic commodity-circulation network and make the price-formation process more reasonable.

Although spot wholesale markets attract extensive public participation, many of those doing business there are peasants who transport goods from producing areas for sale, and most of them work on their own and do not represent the interests of all peasants in producing areas. Only when sellers or their agents representing the interests of peasants as a whole have appeared on wholesale markets, can this mean that peasants have really engaged in commodity-circulation activities and gained the initiative in negotiating prices. This is the central task in the improvement of existing wholesale markets. As can be seen, the development of agricultural products wholesale markets must be closely linked with the arrangement to encourage peasants to come to the market.

The rather disorderly state and occurrence of cases now existing on wholesale markets are not due to their small space or inadequate public security force. The basic reason is the small scale of individual units doing business there. Intermediate businessmen and agents have not been fully developed, nor have any big wholesale dealers appeared to do business through open competition in buying and selling.

Now, governments at all levels, certain departments, some commercial organizations, and even enterprises are enthusiastic about opening and running wholesale markets. It is not bad for numerous units to do this, but there must be some basic principles. For example, no matter who runs the wholesale market, it is imperative to ensure extensive public participation. No restriction should be imposed as to the status of those coming to do business, and there should be no discrimination. In addition, no matter who runs the wholesale market, there must be a clear distinction between the roles and functions of the government and market managers when defining their duties and setting up relevant organizations.

Wholesale markets themselves should control and manage certain aspects of market order. With regard to some systems, however, pertinent legislative departments at various levels must formulate laws and regulations and make arrangements for certain organizations to supervise their implementation. The purpose is to make these systems more authoritative so as to raise the efficiency of management. As for some already-enacted laws and regulations, should they be strictly enforced or can they be relaxed somewhat when they are applied to wholesale markets? What is the appropriate extent of strictness or relaxation? Decisions in this respect should be approved through proper procedures. To attract customers, some wholesale markets have adopted numerous preferential measures themselves, including lowering the rate of the industrial and commercial administrative fee, and have even helped customers to evade taxes. If wholesale markets follow each other's examples to commit such improper or illegal acts, we have to be

concerned about their future. How should a criterion be set up for the income derived from the price of land used by wholesale markets, and to whom does it belong? These questions are especially worth studying.

Jiangxi Increases Rural Production, Income

92CE0455A Beijing NONGMIN RIBAO in Chinese
8 Apr 92 p 1

[Article by Zhen Yan (4176 6056): "A Depressed Region Rises Up: Jiangxi Applies the Law of Value To Advance Production of Rural Products and Increase Farmer Income"]

[Text] In Jiangxi, price levels have been chronically low. Compared with neighboring provinces, and especially coastal provinces, it looks like a "depressed area." Distortion in prices has greatly affected production and distribution.

In Jiangxi, which has long been said to be a major agricultural province, the internal structure of agriculture has not been entirely rational. Nonagricultural industries make up a smaller proportion of the gross rural social output value of Jiangxi than agriculture. In agricultural output value, the crop industry was in the leading position, and grain production accounted for almost all the output value of the crop industry. The commodity rate of farm products and resource output rate are relatively low. The Jiangxi provincial party committee and the provincial government took stock of the situation. Applying the law of value, they guided the peasants toward the market, adjusting product mixes, and developing town and township enterprises. They brought prosperity to the rural commodity economy, so that the peasants increased income from structural adjustments and the development of production.

First, in accordance with the law of value, they brought about bountiful grain harvests year after year by deregulating use of grain by industries, reduced and abolished grain procurement at negotiated, transfer and state-set prices, restricted sales of grain bought at state-set prices as appropriate, and aggressively promoted reform in the system of grain procurement and sales.

In March 1988, the provincial government decided to implement a policy of supplying grain for industrial use at negotiated prices in keeping with market conditions, under the premise of maintaining quantities of grain rationed to consumers and no changes in price for rationed grain. Because of this, the province reduced the target for grain to be bought at the state-set price by more than a billion jin.

In May 1988, to increase farmers' incomes, and advance grain production, the provincial government decided to greatly reduce procurement and sales of grain at negotiated, transfer, and state-set prices from 820 million jin to 220 million jin. At the same time, it reduced sales of grain at low prices by 600 million jin and raised negotiated, transfer, and state-set procurement prices by 19

percent. In 1989, on the basis of reductions made the previous year, Jiangxi abolished negotiated, transfer and state-set prices.

In January 1991, the provincial party committee and the provincial government adjusted some grain rationing standards. The monthly per capita allowance was reduced by three jin for cadres, staff and other mental laborers, and by two jin for residents in general. Adjustments were made in the unreasonable amounts of grain sales in rural areas. The rationing norm for old liberated areas was scaled back by 40 percent, and the rationing norm for some vegetable farmers was reduced 20 percent. In industrial and mining districts at the county level and below, rations for vegetable farmers are now provided with grain bought at negotiated prices. This has caused grain production in Jiangxi to advance forward a step toward doing things in accordance with the law of value.

This year, the provincial party committee and the provincial government decided to carry out a pilot program in comprehensive reform in Zhangshu City. They corrected irrational grain prices step by step, and implemented a policy of purchases and sales at the same price, with grain prices in keeping with the market. This was a new experiment in reform of the pricing system for grain procurement and sales.

Because of the combined effect of policy, science and technology, investment and price levers, Jiangxi enjoyed bountiful harvests year after year. In 1991, despite the worst drought in 40 years and a reduction of 1.669 million mu in the grain area, overall grain production nonetheless reached 32.5 billion jin, which was the second largest crop in history, exceeded only in 1990. At the same time, there were changes in the mix of cereal crops. The proportion of high grade rice increased, and production of corn, barley, wheat, and beans all increased relatively quickly.

Second, they raised the overall level of the rural economy, added force to the movement for structural readjustment of agriculture, and worked strenuously to increase the efficient supply of agricultural products to industry and markets. In making structural adjustments, they consciously applied the law of value, so that farmers, in accordance with the needs of the market, could realize the value of their labor to the greatest extent.

In August 1990, the provincial party committee and the provincial government came out with a policy to speed up development of cash crops such as cotton, flue-cured tobacco, sugarcane, etc., and as a matter of policy, gave these crops appropriate preferential treatment. By 1991, cotton production had broken out of its stagnation of many years. Gross production was 2.18 million dan, achieving Jiangxi's self-sufficiency in cotton and providing a surplus. As for flue-cured tobacco, the proportion of cigarettes made with tobacco grown in the province rose from two out of 20 in the past to more than 18

out of 20. Gross production reached 630,000 dan, an increase of 40.3 percent over the previous year. The proportion of fruit trees, mulberry trees, etc., in industrial forests rose greatly. This spring, several hundreds of thousands of high-grade fruit trees were newly planted in the province, forming more than 10 counties, such as Nanfeng, Xingan, Anyuan, etc., as fruit-industry base counties. In 1991, the province produced 6.68 million dan of fruit, an increase of 43.4 percent over the previous year. Production of silkworm cocoons increased to 113,000 dan from several thousand dan three years before. The province's rate of self-sufficiency in silkworm cocoons for light industry rose from 11.3 percent to 45 percent.

Third, if prosperity is desired, then town and township enterprises must be vigorously developed, realizing new breakthroughs with the value viewpoint of "high growth, high quality, and high efficiency."

These past several years, Jiangxi has focused on supporting the development of town and township enterprises in various aspects, such as policy, finance, materials, and human talent. Localities throughout the province, in accordance with the notion of "industrializing agriculture," and looking to the market for direction, have carried out intensive processing of agricultural products. They have started and vigorously developed, sequentially, a series of town and township enterprises in "agribusiness," following the road of using agriculture to stimulate industry and industry to advance agriculture, with agriculture and industry progressing together. Throughout the province, a large number of industrial chains appeared, made up of crop-growing, livestock-raising, and processing components developed in coordinated sequences. Step by step, a new economic pattern emerged where one village specialized in one product, and one township specialized in one or a few lines of work. Yichun Prefecture relied on its strong grain industry to develop fodder and food industries, making them the principal industries of the whole prefecture. The prefecture accounts for about 25 percent of total annual fodder production for the whole province, and taxes on the beverage alcohol industries account for about one-fourth of industrial tax receipts for the prefecture. Tonggu County correctly chose to make the processing of mao bamboo its basic industry, and developed mao bamboo growing, processing, and sales in a coordinated sequence. Suichuan County made duck its basic industry, forming incubation, hatching, fattening, slaughtering, drying and salting, manufacture of eider down products, and export sales into a chain of industries. In 1991, the output value of town and township enterprises in Jiangxi was 20.065 billion yuan, growing 28.3 percent over the previous year. There are 1,424 town and township enterprises with output value of one million yuan or more, including 42 with output value exceeding 10 million yuan. There are 62 counties where the output value of town and township enterprises exceeds 100 million yuan, and 47 villages where the output value of town and township enterprises exceeds

10 million yuan. Enterprises managed by townships and villages provide net income of 98 yuan for every person in rural villages. The rise of town and township enterprises has caused the proportion of nonagricultural industry in rural villages to increase rapidly. In 1991, in Jiangxi, the proportion of agricultural output value in the total output value of rural society dropped from the previous year's 62.2 percent to 38 percent, and the proportion of nonagricultural industry rose from 37.8 percent to 42 percent. The change in the pattern of production has brought about a large rise in peasant income. In 1991, per capita net income for peasants was 702.5 yuan, 32.6 yuan more than the previous year (669.9 yuan in current prices), and 3.7 million distressed people in Jiangxi escaped from poverty.

Authorities Plan Increase in Yangtze Shelter Forest

OW1206055292 Beijing XINHUA in English
0133 GMT 12 Jun 92

[Text] Kunming, June 12 (XINHUA)—The shelter forest along the Yangtze River will be supplemented by afforesting all the waste hills in 60 counties along the middle and upper reaches of China's longest river, starting this year.

Liu Menglong, director of the administration office of the Yangtze shelter forest, which is affiliated to the Ministry of Forestry, said that in 200 counties some 6.67 million ha [hectares] of hilly land will be afforested by 2000. By this spring, some 2.8 million ha had been afforested, some 42 percent of the planned total.

Characteristics of Juvenile Delinquency Described

92C-MJ0064 Hong Kong *MING PAO* in Chinese
27 Apr 92 p 9

[Article by Gong Wen (7895 2429) "Middle, Primary School Students Repeatedly Brought to Justice, for Robbing, Kidnapping, Committing all Types of Crimes"]

[Text] Example case 1. A 14-year-old middle school student surnamed Yan of Weinan City, Shaanxi Province borrowed two jiao from an 11-year-old neighbor girl named Zheng to buy an electric toy. Because Zheng hurried home to tell the head of the family, Yan nursed hatred in his heart, and conceived of a chance to kill her. Using a game of hide-and-seek to trick Zheng to come to a barren wild area, he ruthlessly beat her head with a brick until she died.

Case 2. Public security organs in Zhengzhou City, Henan Province recently unearthed a case that crossed one city and two county organization involved in breaking into safes and accountant's offices and robbing them. The perpetrators were a group of 11 middle school students. From December of last year until now, these 11 middle school students, carrying steel drills and other tools, and in the dead of night when no one was around, robbed 29 state administration and judicial organs, and enterprise units in Zhengzhou, Neixiang County and Xinye County, committing more than 40 crimes, making off with over 20,000 rmb, and more than 10,000 rmb worth of various types of negotiable securities, and goods such as gold rings and bicycles, and then embarked on an unbridled spending spree.

Although these cases surprise people, they are not the most serious, and they are not isolated cases. Comprehensive analysis of the phenomena by the mainland's judicial departments indicates that at present the occurrence of law breaking among middle school students in urban and rural areas is growing more serious daily, and is spreading rapidly.

According to analysis, one of the characteristics of the middle and primary school crime is the lowering of the age of the perpetrators. Details of some typical cases reveal that the youngest criminal is not even 10 years old, and the average age is roughly 12. Among the members of a criminal group uncovered by Gansu Province authorities, one was only nine years and three months old, but he had already served two years as a thief (at the age of seven he participated in a robbery).

A second characteristic is the varied nature of criminal behavior. Before the 1980s, juvenile criminal activity mainly involved theft, or hooliganism, but few were serious crimes. Since the 1980s, the number of thefts still heads the list, other crimes account for a larger number, and some heinous cases such as murder, robbery, rape, injury, and even drug taking and prostitution have abruptly risen in number. At the same time, seldom seen cases of kidnapping and ransom have also occurred.

The third characteristic is the adult methods being used to commit crimes. Before committing a crime, they plan meticulously, then boldly and recklessly commit the crime. After committing the crime they destroy the scene and make off with the stolen goods, in a manner closely resembling adult criminals. Some middle and primary school students have even begun to use radio communication, mobile communication equipment, and other modern tools for crime. For example, in one city three middle school students took along toy walkie-talkies and surreptitiously entered and robbed a neighbor's house. One took the other's walkie-talker and stood outside the door to keep watch, and in only a few minutes they had successfully committed the crime. This worked every time.

One 15-year-old middle school female student used a BB (expansion unknown) machine she purchased through prostitution to return customer calls, and used code words to discuss price, counter offers, and agree on location and time, afterwards she rode a motorcycle to the prostitution site. A sizeable number of juveniles lay stress on preparation before committing a crime. The number of impulsive crimes is relatively low. They draw up a precise plan beforehand, prepare the tools, and decide on a method to cover up the site and dispose of the stolen goods, even drawing up several schemes. This makes the criminals tend towards giving careful consideration to secrecy, and makes it more difficult to break a case.

Some middle school students were involved in an extortion scheme. They kidnapped a female student, and after their demands for money were refused, they also kidnapped her brother, acting swiftly and surreptitiously. After the case was broken, they confessed that beforehand they investigated the financial situation of the victimized household, and learned the regular pattern of activity of each member of the household. They had detailed plans, A, B, and C, and had decided on a time, place, and escape route for the kidnappings.

The fourth characteristic is the gathering together and training up into groups. Data makes it clear that more than 48 percent of juvenile crimes are carried out by groups.

The fifth characteristic is that the proportion of sex crimes is rising steadily. Prostitution is spreading, and a number of juveniles are involved in pornography. This phenomenon is occurring principally among young women who are dropouts or unemployed, but there are also a number of middle school students in school and even primary school students getting involved. One female middle school student saw her university student sister show off fashionable clothing, and found out that she had prostituted herself with a foreigner. Believing that this was the road to riches, she started to imitate her sister, and not long after had persuaded another schoolmate to engage in such evil ways.

Misconceptions of Oldest Profession

92CM0305A Shanghai SHEHUI (SOCIETY)
in Chinese No 87, 20 Apr 92 pp 25-26

[Article by Pan Suiming (3382 4840 6900): "Decipher the Myth of Prostitution"]

[Excerpts] [passage omitted] Despite limited distribution and number of prostitutes in the vast territory of China, and a population of 1.2 billion, prostitution has become a popular topic of leisure time chitchat. It seems that everybody can tell one or two stories about it. In private, there are even those who boast about their "own experiences."

Prostitution per se is not worrisome, as society may soon learn ways to control and wipe it out. But this private "hot topic" cannot be treated lightly, because it embraces a great deal of misunderstanding, absurdity, temptation and instigation. From the ears it enters the brain, generating all kinds of deduction, associations, fabrication, and illusions, which spread as events, legends, myths, or "real stories." [passage omitted]

It is an old saying that "rich girls prostitute themselves— not for money but for pleasure." The saying later evolved into a two-part allegorical saying, and can be applied to other situations. The real message in this case indicates that quite a few people believe that some prostitutes practice partly for the sake of sexual pleasure.

Now the old saying is prevalent again. The belief in it is deeply rooted. Quite a lot of "legal literature," even some serious papers list "seeking sexual pleasure" as one important reason for illegal prostitution. In describing individual cases, many articles simply cite it as the sole reason.

Misconception is bound to result in some kind of farce. Some customers when bargaining with the prostitute even argue: "I get sexual pleasure, and so do you. Why do you charge?" Some prostitutes have also learned to use this "reason" to solicit or deceive clients, faking pleasure during sex. They even use it as excuse when confronted by security personnel: "We both enjoy it. Is it any business of yours?" When detained in education camps for prostitution, many prostitutes offer "physiological reasons" as an excuse for their responsibility and motives "I am born of strong sexual desire; what can I do about it?"

Such myths are now widespread, serving both as the "physiological basis" for customers and prostitutes, and as a psychological temptation to prospective participants. As a result, all sorts of "theories" are generated from the myths. One husband speaks out loud, "It is better to visit a prostitute than face a piece of wood (a frigid wife) everyday." A young girl formally applied for prostitution, thinking that it would bring her both money and pleasure. Furthermore, some intend to give it a try in private.

The fundamental question is: Do women engage in prostitution as a result of strong sexual desire? Do they obtain pleasure from prostitution?

Investigations and studies on prostitution abroad have produced negative answers to this question. [passage omitted]

At present in China, it is impossible to carry out such a thorough investigation. Individual interviews with prostitutes, however, found that the majority of them describe their experience as "tiresome," "indifferent," "no alternative," or "have to tolerate," if they were telling the truth. Even those who practiced "unusual sex" often told the truth afterwards. "Who does not pretend?" In fact, some crude folk song hundreds of years ago reveal the nature of the myth "(the prostitute) tolerates it a few minutes by clenching her teeth and closing her eyes, simply in exchange for a yard of cloth and two pounds of cotton." There is another popular joke today: "The prostitute says to her customer, move your head, I am watching T.V." [passage omitted]

A young prostitute who had a foreign customer refused to admit her mistake, and took the lead to make trouble in detention. Her reason was: "What crime did I commit by seeking pleasure only?" She refused to listen when people talked to her about laws and morality, but she started to cry when one expert helped her analyze her physical and mental experience during prostitution. [passage omitted]

Prostitution is a kind of commercial exchange. The rise and fall of prices plays a great leverage role, sometimes even a control function. Let's put aside the question of current price for the time being, and see how ordinary people estimate prices.

During limited investigation, the highest price guessed was 8,000 yuan per act. Some said, "Taking off the pants is worth a month's pay." It must be at least 100 to 200 yuan per act. Sorting out the various shining bills, we discover an interesting law: Those who strongly detest prostitution tend to overestimate the price. This manifests a social complaint, just like the popular complaint that "those who make atom bombs are less valued than those who sell pickled eggs on the street." People involved in or who plan to get involved in prostitution, when they are not boasting, tend to underestimate the price. Of course, the old hands who have paid the price or receive the money always keep it a secret.

Such social mentalities distant from reality play an important role in prostitution. [passage omitted]

There is a joke. A family of three were talking about prostitution. The husband said, "One act of a prostitute in a city is worth my three years' salary!" The wife immediately responded, "Then, never visit a prostitute." The daughter unexpectedly said, "I should do this work."

We often find philosophy in jokes. Are the advocates and exaggeration of prostitutes' income as "easy money" and "a million pounds," and of their life style of "throwing away gold as if it was dirt" indicates that prostitution is a "short cut to wealth?" Now, some literature and news reports that propagate the law and "criticize the West" are inclined to deliberately exaggerate and engage in "revealing" the high income of illegal prostitutes. These works are not even comparable with *Jin Ping Mei* or serious literature in the West. Even *Jin Ping Mei* objectively describes how prostitutes suffer from beating, being sold, being burned by incense, and forced to satisfy weird sexual requests from customers. Is it true that those prostitution reports are really ignorant of the fact that today prostitutes are still killed, disabled, and inhumanly mistreated. Or do they believe that prostitution is a "creative source of income?" Some "persuasions" and "warnings" often devote a great deal of description to how prostitutes lead a luxurious life, and put only one statement in the end, "She was eventually convicted." Frankly speaking, does it suggest that it is worth imprisonment?

Stories of the "high income myth" go even farther. People who estimate that a prostitute gets 8,000 yuan swore that it was true, because it was personally seen by his friend's friend. When asked, "Your friend's friend must be a big boss from abroad and also a prostitute's customer? Otherwise, how could he see it personally? He answered (mysteriously): "Let me tell you, but please keep it a secret. It is x x x (a celebrity from Hong Kong)." We have to congratulate him on his relationship with his friend's friend, with whom he has such intimacy.

There are still other myths such as "10,000 yuan household from prostitution," and money from prostitution used for opening business. All is said to be "true." [passage omitted]

Quite a few ignorant females are willing to walk into the trap out of the temptation of nonexisting dream of "less investment and more gain." What many women admire in particular before they "fall in the water" is not only cash paid up front, but a misconception of life style in the movie "Stories of the Rich," of the vanity of fashion models from Paris, of the grace and comfort of Italian royal court, and of unspoken freedom. Those women are deceived by the myths and stories, going after the kind of environment, atmosphere, emotional experience and inner feeling, which they do not comprehend themselves. Do not expect such psychological process to exist only among those "quality" prostitutes who accept only "foreign currency." Even girls from remote mountainous areas, of inferior quality, who can find customers only among temporary workers and vendors, walk along this "trail" day by day. Only they are more realistic, forced to start from the bottom. They are poisoned by the same myths.

Some believe that speaking of high prices may inhibit customers. Not necessarily. Men, especially those of high social status and married, visit prostitutes for complex reasons. We will not discuss it in detail here. We must point out, however, that usually those who do not want to, dare to, or cannot visit prostitutes use "high prices" as excuses not to do it. Those who want to, remember only the myths of "low prices" and "economic gain," because only when one is willing to listen can he remember. Such is the case of using the psychological mechanisms of self-defense. The outcome is obvious. In bargaining with prostitutes, customers always argue that it is cheaper elsewhere. They confront prostitutes with the belief in "low price myth" against the prostitute's belief in "high price myth." The psychological confrontation may be seen at any human "free market." Of course, there are customers who seek sexual pleasure at any cost. Stories of high prices will not hinder them from doing it.

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